
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, 2001
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, Namdaemun-ro, Jung-gu
Seoul 100-703, Korea

(Address of principal executive offices)

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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.

317,677,416 shares of common stock, par value ₩5,000 per share

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

Yes

No

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

Item 17

Item 18

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

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

Yes

No

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

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CERTAIN DEFINED TERMS

For the years ended December 31, 1999, 2000 and 2001 and as of December 31, 1999, 2000 and 2001, 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 for the years ended December 31, 1999, 2000 and 2001 and as of December 31, 1999, 2000 and 2001 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 "₩" are to the currency of Korea; and
- references to "U.S. dollars," "US dollars," "\$" or "US\$" are to United States dollars.

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, 2001, which was ₩1,313.5 = US\$1.00. On June 24, 2002 the noon buying rate was ₩1,208.5 = US\$1.00.

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 document contains forward-looking statements, which include statements regarding the period following the recent merger.

Words such as “will,” “aim,” “will likely result,” “will continue,” “contemplate,” “seek to,” “future,” “objective,” “goal,” “should,” “will pursue,” “anticipate,” “estimate,” “expect,” “project,” “intend,” “plan,” “believe” and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify forward-looking statements. All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. In addition to the risks related to our business, the factors relating to the recent merger discussed under “Item 3. Key Information—Risk Factors,” among others, could cause actual results to differ materially from those described in the forward-looking statements. 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 which have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation, 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.

For further discussion of the factors that could cause actual results to differ, see the discussion under “Item 3. Key Information—Risk Factors” contained in this document. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of this document. 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.

Items 1 and 2. Not applicable

Item 3. KEY INFORMATION

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial and operating data set forth below for the years ended December 31, 1999, 2000 and 2001 and as of December 31, 1999, 2000 and 2001 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 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)	2001(1)(2)
	(in billions of Won, except per common share data)			(in millions of US\$, except per common share data)
Interest and dividend income	₩ 6,484	₩ 7,357	₩ 8,974	\$ 6,832
Interest expense	4,498	4,640	5,360	4,081
Net interest income	1,986	2,717	3,614	2,751
Provision for credit losses (3)	1,015	276	1,255	955
Non-interest income	1,398	866	1,702	1,296
Non-interest expense	1,532	1,683	2,406	1,832
Income tax expense	350	629	625	476
Minority interest	6	81	83	63
Extraordinary gain (4)	—	14	45	34
Net income	₩ 481	₩ 928	₩ 992	\$ 755
Net income per common share (5):				
Net income-basic (6)	₩ 2,982	₩ 4,931	₩ 4,700	\$ 3.58
Net income-diluted (7)(8)	2,506	4,243	4,256	3.24
Weighted average common shares outstanding-basic (in thousands of common shares)	161,188	188,107	211,037	211,037
Weighted average common shares outstanding-diluted (in thousands of common shares)	192,765	219,797	234,541	234,541
Cash dividends paid per common share (9)(10)(11)	₩ 338	₩ 84	₩ 844	\$ 0.64

- (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 ₩1,313.5 to US\$1.00, the noon buying rate in effect on December 31, 2001 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Includes provision for losses on guarantees and acceptances.
- (4) Includes cumulative effect of accounting change, net of tax in 2001.
- (5) 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 (1) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB and (2) a 6% stock dividend approved on March 22, 2002.
- (6) Basic earnings per share is calculated by dividing the net income available to common stockholders by the weighted average number of common shares issued and outstanding for the period.
- (7) Diluted earnings per share is computed in a manner consistent with that of basic earnings per share, while giving 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. 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.

- (8) In the diluted earnings per share calculation, the convertible debentures and preferred shares are assumed to have been converted into common shares. The dilutive effect of stock options is also reflected. Net income is adjusted to eliminate the applicable interest on the convertible debentures; however, no adjustment was made to net income related to preferred shares. For the stock options, a calculation is performed to determine the number of shares that could be acquired at market price (determined as the average share price of our common shares) based on the proceeds that we would receive upon exercise of the outstanding options. The difference between the number of shares to be issued upon exercise and the number of shares that could be acquired with the proceeds is the number of shares that must be added to the common shares outstanding for the purpose of computing the dilution. For the stock option calculation, no adjustment is made to net income. The exercise prices of all outstanding options to purchase common shares were higher than their corresponding average market prices of our common shares in 2000. As a result, such options were excluded from the computation of diluted earnings per share in 2000. There were no options outstanding in 1999.
- (9) 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.
- (10) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of ₩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.
- (11) Per share information for dividends paid prior to November 1, 2001 has been adjusted for the merger ratio of 1:1.688346.

Consolidated balance sheet data

	As of December 31,			
	1999	2000	2001 (1)	2001 (1)(2)
	(in billions of Won)			(in millions of US\$)
Assets				
Cash and cash equivalents	₩ 2,161	₩ 1,701	₩ 3,041	\$ 2,315
Restricted cash	706	1,540	4,373	3,329
Interest-bearing deposits in other banks	629	1,587	592	451
Call loans and securities purchased under resale agreements	377	2,491	2,012	1,532
Trading assets	3,636	3,104	6,874	5,234
Available-for-sale securities	8,167	8,281	12,324	9,383
Held-to-maturity securities (fair value of ₩7,809 billion in 1999, ₩9,301 billion in 2000 and ₩13,515 billion in 2001)	7,765	9,005	13,225	10,068
Loans (net of allowance for loan losses of ₩2,623 billion in 1999, ₩2,394 billion in 2000 and ₩3,508 billion in 2001)	42,351	57,041	117,452	89,419
Due from customers on acceptances	995	1,916	1,887	1,437
Premises and equipment, net	1,130	1,153	2,030	1,546
Accrued interest and dividends receivable	1,090	1,107	1,160	883
Security deposits	687	690	1,244	947
Other assets	1,660	1,175	2,016	1,534
Total assets	₩71,354	₩90,791	₩168,230	\$128,078
Liabilities and Stockholders' Equity				
Deposits:				
Interest bearing	₩40,079	₩54,201	₩110,895	\$ 84,427
Non-interest bearing	2,659	1,982	4,141	3,153
Call money	1,333	581	2,701	2,057
Trading liabilities	298	718	287	218
Acceptances outstanding	995	1,916	1,887	1,437
Other borrowed funds	4,816	6,369	10,812	8,231
Accrued interest payable	2,105	2,311	4,617	3,515
Secured borrowings (3)	423	1,468	5,501	4,188
Long-term debt	14,212	14,797	16,626	12,658
Other liabilities	1,853	2,482	2,820	2,146
Total liabilities	68,773	86,825	160,287	122,030
Minority interest	21	221	308	235
Common stock	1,498	1,498	1,588	1,209
Additional paid-in capital	1,141	1,242	4,960	3,777
Other	(79)	1,005	1,087	827
Stockholders' equity	2,560	3,745	7,635	5,813
Total liabilities, minority interest and stockholders' equity	₩71,354	₩90,791	₩168,230	\$128,078

- (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 ₩1,313.5 to US\$1.00, the noon buying rate in effect on December 31, 2001 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Secured borrowings consist of beneficial interests issued by special purpose entities in asset securitization transactions, including those relating to credit card loans, credit card receivables and securities sold under repurchase agreements.

Profitability ratios and other data

	Year ended December 31,		
	1999	2000	2001
	(percentages)		
Net income as a percentage of:			
Average total assets (1)	0.68%	1.15%	0.92%
Average stockholders' equity (1)	23.19	29.42	20.59
Dividend payout ratio (2)	9.83	1.61	15.06
Net interest spread (3)	2.56	3.09	3.18
Net interest margin (4)	3.01	3.57	3.58
Cost-to-income ratio (5)	45.27	46.97	45.26
Cost-to-average assets ratio (6)	2.18	2.09	2.22
Won loans (gross) as a percentage of Won deposits	97.64	101.53	104.25
Total loans (gross) as a percentage of total deposits	105.17	105.72	105.09

- (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 paid 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
	(percentages)		
Total capital adequacy (BIS) ratio (1)	11.38%	11.18%	10.23%
Tier I capital adequacy ratio (1)	7.26	6.82	7.09
Tier II capital adequacy ratio (1)	4.12	4.36	3.18
Average stockholders' equity as a percentage of average total assets	2.95	3.92	4.45

- (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 5. Operating and Financial Review and Prospects—Capital Adequacy."

Credit portfolio ratios and other data

	As of December 31,		
	1999	2000	2001
	(in billions of Won, except percentages)		
Total loans	₩44,945	₩59,397	₩120,894
Total non-performing loans (1)	2,134	1,762	3,376
Other impaired loans not included in non-performing loans	4,399	4,145	3,513
Total of non-performing loans and other impaired loans	6,533	5,907	6,889
Allowance for non-performing loans (2)	1,031	757	1,701
Total allowance for loan losses	2,623	2,394	3,508
Non-performing loans as a percentage of total loans	4.74%	2.97%	2.79%
Non-performing loans as a percentage of total assets	2.99	1.94	2.01
Total of non-performing loans and other impaired loans as a percentage of total loans	14.54	9.94	5.70
Allowance for non-performing loans as a percentage of non-performing loans (1)	48.31	42.96	50.37
Allowance for loan losses as a percentage of total loans	5.84	4.03	2.90

- (1) Non-performing loans are defined as those loans which are past due more than 90 days.
- (2) Allowance for loan losses established in respect of non-performing loans only.

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,								
	1999			2000			2001(1)		
	Average Balance (2)	Interest Income (3)(4)(5)(6)	Average Yield	Average Balance (2)	Interest Income (3)(4)(5)(6)	Average Yield	Average Balance (2)	Interest Income (3)(4)(5)	Average Yield
	(in billions of Won, except percentages)								
Assets									
Cash and interest-earning deposits in other banks . . .	₩ 2,081	₩ 179	8.60%	₩ 2,898	₩ 199	6.87%	₩ 1,078	₩ 65	6.03%
Call loans and securities purchased under resale agreements	578	37	6.40	821	55	6.70	2,093	101	4.83
Trading securities	4,654	127	2.73	2,774	183	6.60	3,575	173	4.84
Investment securities (6) . . .	16,228	1,589	9.79	17,720	1,653	9.33	21,202	1,545	7.29
Loans:									
Commercial and industrial	23,706	2,143	9.04	27,375	2,260	8.26	32,463	2,671	8.23
Lease financing	1,037	118	11.38	593	73	12.31	512	59	11.52
Construction loans	1,766	165	9.34	1,955	182	9.31	2,503	224	8.95
Other commercial	999	91	9.11	1,140	105	9.21	1,339	116	8.66
Mortgage and home equity	5,166	633	12.25	7,081	770	10.87	12,988	1,145	8.82
Other consumer	5,904	762	12.91	7,176	811	11.30	12,258	1,194	9.74
Credit cards (5)	2,786	551	19.78	5,518	982	17.80	9,938	1,616	16.26
Foreign commercial and industrial	1,027	89	8.67	1,087	84	7.73	1,120	65	5.80
	<u>42,391</u>	<u>4,552</u>	10.74	<u>51,925</u>	<u>5,267</u>	10.14	<u>73,121</u>	<u>7,090</u>	9.70
Total average interest earning assets	65,932	6,484	9.83	76,138	7,357	9.66	101,069	8,974	8.88
Cash and due from banks . .	1,858	—	—	2,221	—	—	2,804	—	—
Foreign exchange contracts and derivatives	299	—	—	321	—	—	787	—	—
Premises and equipment . . .	1,187	—	—	1,154	—	—	1,223	—	—
Due from customers on acceptance	874	—	—	1,456	—	—	1,202	—	—
Loan loss allowance	(2,161)	—	—	(2,287)	—	—	(2,542)	—	—
Other non-interest earning assets	2,379	—	—	1,477	—	—	3,776	—	—
Total average non-interest earning assets	4,436	—	—	4,342	—	—	7,250	—	—
Total average assets	₩70,368	₩6,484	9.21%	₩80,480	₩7,357	9.14%	₩108,319	₩8,974	8.28%

Year ended December 31,

	1999			2000			2001 (1)		
	Average Balance (2)	Interest Expense	Average Yield	Average Balance (2)	Interest Expense	Average Yield	Average Balance (2)	Interest Expense	Average Yield
(in billions of Won, except percentages)									
Liabilities									
Deposits									
Demand deposits	₩ 307	₩ 7	2.28%	₩ 345	₩ 8	2.32%	₩ 499	₩ 8	1.60%
Certificate of deposits	778	52	6.68	1,878	129	6.87	2,023	123	6.08
Other time deposits	21,493	1,862	8.66	26,660	2,051	7.69	33,231	2,397	7.21
Savings deposits	12,358	366	2.96	15,976	438	2.74	23,665	446	1.88
Mutual installment deposits	3,575	326	9.12	4,676	410	8.77	7,238	563	7.78
Deposits (total)	38,511	2,613	6.79	49,535	3,036	6.13	66,656	3,537	5.31
Call money	1,215	69	5.68	1,214	62	5.11	991	41	4.14
Borrowings from the Bank of									
Korea	1,397	63	4.51	892	42	4.71	1,146	38	3.32
Other short-term borrowings	2,713	205	7.56	4,049	299	7.38	8,046	520	6.46
Secured borrowings	372	24	6.45	795	59	7.42	3,701	297	8.02
Long-term debt	17,614	1,524	8.65	14,112	1,142	8.09	13,463	927	6.89
Total average interest bearing liabilities	61,822	4,498	7.28	70,597	4,640	6.57	94,003	5,360	5.70%
Demand deposits	1,568	—	—	1,677	—	—	1,871	—	—
Foreign exchange contracts and derivatives	314	—	—	341	—	—	752	—	—
Acceptances to customers	874	—	—	1,456	—	—	1,202	—	—
Other non-interest bearing liabilities	3,717	—	—	3,256	—	—	5,673	—	—
Total average non-interest bearing liabilities	6,473	—	—	6,730	—	—	9,498	—	—
Total average liabilities	68,295	4,498	6.59	77,327	4,640	6.00	103,501	5,360	5.18%
Stockholders' equity	2,073	—	—	3,153	—	—	4,818	—	—
Total liabilities and stockholders' equity	₩70,368	₩4,498	6.39%	₩80,480	₩4,640	5.77%	₩108,319	₩5,360	4.95%

- (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) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
- (3) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See "Item 4. Information on the Company—Assets and Liabilities—Non-Accrual Loans and Past Due Accruing Loans."
- (4) We do not invest in any tax-exempt securities.
- (5) Interest income from credit cards includes principally cash advance fees of ₩323 billion, ₩777 billion and ₩1,271 billion and interest on credit card loans of ₩228 billion, ₩204 billion and ₩273 billion for the years ended December 31, 1999, 2000 and 2001, respectively.
- (6) 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.

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

	Year ended December 31,		
	1999	2000	2001
	(percentages)		
Net interest spread (1)	2.56%	3.09%	3.18%
Net interest margin (2)	3.01	3.57	3.58
Average asset liability ratio (3)	106.65	107.85	107.52

- (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 2000 compared to 1999 and 2001 compared to 2000. 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 2000 vs. Fiscal 1999 Interest/(decrease) due to change in			Fiscal 2001 vs. Fiscal 2000 Interest/(decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest earning assets						
Cash and interest earning deposits	₩ 61	₩ (41)	₩ 20	₩ (112)	₩ (22)	₩ (134)
Call loans and securities purchased under resale agreements	16	2	18	65	(19)	46
Trading securities	(67)	123	56	46	(56)	(10)
Investment securities	142	(78)	64	291	(399)	(108)
Loans						
Commercial and industrial	313	(196)	117	419	(8)	411
Lease financing	(54)	9	(45)	(10)	(4)	(14)
Construction loans	18	(1)	17	49	(7)	42
Other commercial	13	1	14	18	(7)	11
Mortgage and home equity	214	(77)	137	543	(168)	375
Other consumer	151	(102)	49	508	(125)	383
Credit cards	491	(60)	431	725	(91)	634
Foreign commercial and industrial	5	(10)	(5)	2	(21)	(19)
Total interest income	1,303	(430)	873	2,544	(927)	1,617
Interest bearing liabilities						
Deposits						
Demand deposits	1	—	1	3	(3)	—
Certificates of deposit	76	1	77	10	(16)	(6)
Time deposits (other than certificates of deposit)	413	(224)	189	480	(134)	346
Savings deposits	101	(29)	72	171	(163)	8
Mutual installment deposits	97	(13)	84	204	(51)	153
Call money	—	(7)	(7)	(10)	(11)	(21)
Borrowings from the Bank of Korea	(24)	3	(21)	10	(14)	(4)
Other short-term borrowings	99	(5)	94	262	(41)	221
Secured borrowings	31	4	35	233	5	238
Long-term debt	(288)	(94)	(382)	(51)	(164)	(215)
Total interest expense	506	(364)	142	1,312	(592)	720
Total net interest income	₩ 797	₩ (66)	₩ 731	₩1,232	₩(335)	₩ 897

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 document were made at the noon buying rate in effect on December 31, 2001, which was ₩1,313.5 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 24, 2002, the noon buying rate was ₩1,208.5 = US\$1.00.

	<u>Won per U.S. dollar (noon buying rate)</u>			
	<u>Low</u>	<u>High</u>	<u>Average (1)</u>	<u>Period- End</u>
1997	845.5	1,960.0	998.1	1,695.0
1998	1,196.0	1,812.0	1,368.2	1,206.0
1999	1,125.0	1,243.0	1,187.8	1,136.0
2000	1,105.5	1,267.0	1,140.3	1,267.0
2001	1,234.0	1,369.0	1,295.1	1,313.5
December 2001	1,270.9	1,329.1		
2002 (through June 17)	1,208.5	1,332.0	1,281.0	1,208.5
January 2002	1,302.0	1,330.5		
February	1,315.2	1,327.3		
March	1,314.3	1,331.5		
April	1,293.6	1,332.0		
May	1,219.3	1,294.0		
June (through June 24)	1,208.5	1,233.0		

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).

RISK FACTORS

You should carefully consider the following risks described below before making an investment decision. The occurrence of any of the following events could harm us. If these events occur, the trading price of our common stock and the ADSs could decline, and you may lose all or part of your investment. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

Risks relating to our retail credit portfolio

We may not be able to sustain the rate of growth or credit quality of our retail loan and credit card portfolios.

In recent years, consumer debt has increased rapidly in Korea. As the leading retail bank in Korea, our portfolio of retail loans, including 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 ₩12,177 billion and ₩3,362 billion, respectively, as of December 31, 1999 to ₩60,506 billion and ₩16,751 billion, respectively, as of December 31, 2001, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2001, our retail loans and credit card accounts represented 50.1% and 13.9% of our total lending, respectively. The growth of our retail lending and credit card businesses, which offer higher margins than other lending activities, has contributed significantly to the increase in our interest income and our profitability in recent years. We may not be able to sustain this growth due to increasing market saturation, competition and government regulation in the retail and credit card segments and other factors, which may hurt our future performance and prospects.

The rapid growth in our retail loan and credit card portfolios has been accompanied by increasing delinquencies, loan loss provisions and charge-offs. Our non-performing retail loans (defined as those that are over 90 days past due) increased from ₩206 billion as of December 31, 1999 to ₩1,046 billion as of December 31, 2001. In our credit card segment, outstanding balances overdue by 30 days or more increased from ₩195 billion as of December 31, 1999 to ₩562 billion as of December 31, 2001, and our charge-offs, net of recoveries, increased from ₩51 billion in 1999 to ₩313 billion in 2001. Credit card delinquencies may also 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. On a consolidated Korean GAAP basis, the outstanding balance of cash advances on our credit cards increased from ₩1,315 billion as of December 31, 1999 to ₩5,121 billion as of December 31, 2001 and the outstanding balance of our credit card loans increased from ₩856 billion as of December 31, 1999 to ₩3,181 billion as of December 31, 2001. A deterioration of the credit quality of our retail loan and credit card portfolios would require us to increase our loan loss provisions and charge-offs and would adversely affect our financial condition, results of operations and capital adequacy.

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 which have a significant adverse effect on Korean consumers could result in reduced growth and a 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 becoming increasingly 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 expect increasing 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 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 this connection, Kookmin Credit Card was warned against, and fined ₩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 ₩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 ₩6.96 billion for anti-competitive behavior.

In April and May of 2002, the Financial Supervisory Commission and the Ministry of Finance and Economy announced plans, through proposed amendments to relevant laws and regulations which are expected to be effective on July 1, 2002, to:

- require credit card issuers to reduce their lending volumes (including cash advances and credit card loans and, from the fourth quarter of 2004, including for purposes of the calculation loan-related receivables sold through asset securitization transactions) to less than 50% of their aggregate quarterly average outstanding credit card balance by the fourth quarter of 2003;
- require credit card issuers to retool their credit scoring systems to better address the credit risks of their customers;
- require credit card issuers to lower the interest rate on cash advances to the level of the industry's leading credit card companies and to improve the member classification system so that cardholders receive more diversified credit grades; and
- require credit card issuers to set credit limits for cardholders by taking into account their creditworthiness and strengthen the Korean GAAP loan loss provisioning guidelines applicable to banks with credit card operations.

These new regulations will effectively restrict interest rates charged to customers and, depending upon the growth in charge volume, may significantly reduce the level of cash advances and credit card loans which may be made in the future. The growth and profitability of our credit card operations may suffer as a result of these enforcement activities and new regulations.

We may in the future integrate our credit card operations, which may 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 our majority-owned subsidiary. We have not yet determined what type of integration, if any, we will undertake in respect of our dual credit card operations. Future decisions with respect to integration of these operations may adversely affect our credit card business. For example, unifying the two cards could result in the loss of overlapping customers who prefer the availability of multiple cards.

Risks relating to our strategy

We have no history of generating significant fee income, which is an important part of our strategy.

We have historically relied on interest income as our primary revenue source. To date, except for credit card 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 market segments generally accept the concept of fee-based services. The willingness of these segments 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, the large corporate sector is a focus of our fee-based strategy. There is a risk that our reduced focus on large corporate lending will hamper our ability to attract fee business from large corporate 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 high 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.

We may not succeed in improving customer service through the introduction of performance-based compensation.

Our ability to increase our market share in the retail, credit card and small- and medium-sized enterprise segments will depend in part upon our ability to attract and maintain customers through high-quality services. We intend to enhance the quality of our customer service by introducing human resource initiatives, including performance-based compensation designed to provide incentives to our employees to increase customer satisfaction. Virtually all employees interfacing with our customers are members of our labor union subject to contracts that do not currently provide for performance-based compensation. To the extent we attempt to implement performance-based compensation, we may face strong resistance from either or both of the “Kookmin Bank” or “H&CB” chapters of the labor union. Failure of the union to accept or cooperate fully with our new programs will adversely affect the implementation of this aspect of our strategy.

We may not successfully reconfigure our overlapping branches.

Following the merger, our senior management has made public announcements that our integration strategy will not focus on labor reductions or immediate closure of branches. We currently intend to retain our overlapping branches and to convert them to perform functions that enhance our customer service capability in the affected geographical areas. These conversions may not be successful and our retention of these overlapping branches may adversely affect our profitability as a result.

Risks relating to the recent merger between the former Kookmin Bank and H&CB

We may fail to realize the anticipated benefits of 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:

- difficulties in integrating the operations of the former Kookmin Bank and H&CB, including information systems, personnel, policies and procedures, and overlapping operations, subsidiaries and branch networks;
- 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 banks.

The integration of the operations of the two banks will continue to require significant amounts of time, financial resources and management attention. Our management has implemented a business plan to effectively combine the operations of the former Kookmin Bank and H&CB. Those operations are diverse in terms of management, compensation and business culture, as well as in terms of the products and services offered and the customers served. If this business plan is not effective in integrating the operations of the two banks, however, we may not realize the anticipated benefits of the merger. Moreover, the integration process could result in the disruption 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 may experience significant customer loss as a result of, among other things, our move to create a single brand for our products and sources.

We currently operate under the “Kookmin Bank” and “H&CB” brand names. We plan to establish a single brand name and corporate identity soon after the completion of our IT systems integration, which is currently scheduled for September 2002. Although we have not experienced significant customer losses as a result of the merger to date, we believe that customer losses are likely to occur when our identity publicly changes during the rebranding process. Loss of a significant number of customers would lead to a decline in revenue and market share, and could have an adverse effect on our business and financial condition.

We may experience difficulty in fully integrating our IT systems, which may significantly impact our ability to realize the full synergy effects from the merger.

We plan to integrate the IT systems of the former Kookmin Bank and H&CB by the end of September 2002. Due to the complicated logistical requirements of the planned integration, our IT systems may experience problems during and after implementation of the integration. These problems may disrupt our daily operations and delay our IT systems integration and may adversely affect our ability to realize the full synergy effects from the merger.

Labor union unrest may disrupt our operations, which may hinder our ability to realize the benefits of the merger.

We experienced a period of labor unrest in connection with the announcement of the merger. The Korea Financial Industry Union, which represents a substantial majority of our combined workforce through two separate chapters, one for the former Kookmin Bank and the other for H&CB, opposed the merger and any reductions in overlapping personnel resulting from combining the two banks' businesses. In addition, former members of the labor union initiated various legal actions, including filing a lawsuit to nullify the merger, which is still pending. Either or both chapters of the labor union may continue to engage in disruptive activities as the operations of the merged banks are further integrated. Actual or threatened labor unrest may hinder our ability to realize cost savings in connection with the merger, and any significant labor action by our workforce could seriously disrupt our operations.

Risks relating to competition

Competition in the Korean banking industry is becoming increasingly 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 may make it more difficult for us to secure retail 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 two years. We expect that this merger activity will continue. In this respect, there have been recent press reports of possible mergers involving some of our competitors. Some of the banks resulting from these other mergers may, by virtue of the increased size, provide significantly greater competition.

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 27, 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.

Risks relating to our corporate credit 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, 2001, 11 are companies that are members of the 30 largest chaebols in Korea, including the former Hyundai Group. As of that date, the total amount of our exposures to the 30 largest chaebols was ₩10,408 billion, or 6.6% of our total exposures, of which ₩755 billion, or 0.5%, were classified as substandard or below. If the quality of the exposures extended by us 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 and former Daewoo Group companies, a number of which have been experiencing financial difficulties. In 2001, creditor financial institutions of several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering & Construction, Hyundai Petrochemical and Hyundai Merchant Marine, agreed to provide financial assistance to these companies by way 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 Hynix Semiconductor and Hyundai Petrochemical. In addition, 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. The table below summarizes our exposures to these groups and their significant member companies:

	As of December 31, 2001				
	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Substandard or Below	Allowance for Loan Losses	Allowance for Loan Losses as a % of Exposure
	(in billions of Won, except percentages)				
Former Hyundai Group (Total) (2) . . .	₩2,787	1.77%	0.00%	₩98	3.52%
Hyundai Engineering & Construction	275	0.17	0.00	9	3.27
Hynix Semiconductor	150	0.10	0.00	0	0.00
Hyundai Petrochemical	185	0.12	0.00	19	10.27
Hyundai Merchant Marine	338	0.21	0.00	50	14.79
Former Daewoo Group (Total) (3) . . .	530	0.34	64.91	267	50.38
Ssangyong Motor Company	145	0.09	90.34	87	60.00
Daewoo Electronics	134	0.09	85.07	101	75.37

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

- (2) In addition, approximately 80% of the securities held by two trusts that were formed in Korea after the dissolution of the Bond Market Stabilization Fund, which had an aggregate fair value of ₩297 billion, are securities issued by companies of the former Hyundai Group. As we own 16.4% of these trusts in total, we are exposed to 16.4% of the potential loss on those securities.
- (3) Includes our ten 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 which 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 these 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, 2001, our loans and guarantees and acceptances to companies that were in workout, corporate restructuring, composition or corporate reorganization amounted to ₩2,280 billion or 1.8% of our total loans and guarantees and acceptances, of which ₩1,630 billion or 71.5% was classified as substandard or below. As of the same date, our allowances for losses on these loans and guarantees and acceptances amounted to ₩1,005 billion, or 44.1% 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.

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

We have established allowances for losses on loans and guarantees to construction companies and leasing companies which we consider to have a greater likelihood of becoming non-performing. As of December 31, 2001, we had:

- loans and guarantees outstanding to construction companies in the amount of ₩4,174 billion, or 3.3% of our total loans and guarantees, of which ₩706 billion or 16.9% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to ₩313 billion, or 44.3% of the amount classified as substandard or below and 7.5% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises and is generally secured by real estate or other collateral or is guaranteed by third parties; and
- loans and guarantees outstanding to leasing companies in the amount of ₩644 billion, or 0.5% of our total loans and guarantees, of which ₩320 billion or 49.7% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to ₩176 billion, or 55.0% of the amount classified as substandard or below and 27.3% of the total.

These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies or leasing companies.

Other risks relating to our business

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

Neither we nor our subsidiaries, including Kookmin Credit Card Co., Ltd., 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 5. Operating and Financial Review and Prospects—Selected Financial Information under Korean GAAP” and “Item 5. Operating and Financial Review and Prospects—Reconciliation with Korean GAAP.” As a result, our provision and allowance levels reflected under Korean GAAP in our results for the three-month periods ended March 31, 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 are secured by real estate. Due to intense competition among banks and significantly increasing mortgage loans and other real estate-secured loans in 2002, the overall industry average 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, may have increased significantly. This increase may not be reflected in our allowance level as of the end of 2001. Such an 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 cannot guarantee that we will 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, 2001, 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 ₩3,090 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 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 a material 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 which provide a principal-only guarantee, we expect to phase out the offering of such accounts by the end of 2002. 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 our 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, 2001, we had ₩5,397 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 ₩8 billion in 1999, ₩269 billion in 2000 and ₩31 billion in 2001. 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. However, in 2002, interest rate levels in Korea have started to rise.

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. Rising 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, 2001, approximately 87% of our 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. As of December 31, 2001, our Tier I capital adequacy ratio was 7.09%, and our combined Tier I and Tier II capital adequacy ratio was 10.23%. The Bank for International Settlements has recently adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes have become applicable to most Korean banks commencing on January 1, 2002. We expect that these changes will result in a decrease in our capital adequacy ratio.

In addition, 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. Depending on the terms and amount of any additional capital obtained, holders of our common stock or ADSs may experience a significant dilution of their interest.

Risks relating to government regulation and policy

The Korean government may decide not to continue to designate us as the sole manager of the National Housing Fund, in which case our fee income from managing the National Housing Fund may be eliminated or 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. Since 1981, H&CB has managed the operations of the National Housing Fund and received a monthly management fee. In the first ten months of 2001, H&CB received total management fees of ₩149 billion from these operations, and we derived ₩33 billion of management fees from these operations in the last two months of 2001, following the merger. In 2000, H&CB received total management fees of ₩158 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.

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 intends to retain outside consultants to review the existing management and fee structure for the National Housing Fund, and that it plans to consider various long-term measures for improving the overall management of the fund, including the diversification of the managers of the fund. If the Ministry of Construction and Transportation decides to lower existing management fees or to designate another institution instead of us or in addition to us to manage the National Housing Fund, our fee income from managing the National Housing Fund will be eliminated or reduced compared to current levels, which in turn would have an 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 on our behalf, as manager of the National Housing Fund, where we have clear responsibility for non-performing National Housing Fund loans or where losses result to the National Housing Fund due to our 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 National Housing Fund loans, to the extent such losses are deemed to have resulted from our negligence in managing the fund.

The Korean government promotes lending to certain types of borrowers as a matter of policy, which we may feel compelled to follow.

The Korean government has promoted, and, as a matter of policy, may continue to attempt to promote lending to certain types of borrowers. It generally has done this by requesting banks to participate in remedial programs for troubled corporate borrowers and by identifying sectors of the economy it wishes to promote and making low interest loans available to banks and financial institutions who lend to borrowers in these sectors. The government has in this manner promoted low-income mortgage lending and lending to technology companies. We expect that all loans made pursuant to government policies will be reviewed in accordance with our credit review policies. However, government policy may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of the government policy.

Risks relating to Korea

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 2001 and early 2002 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 increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the world economy 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 government requests for Korean banks to participate in 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;
- volatility in foreign currency reserve levels, 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, particularly in the time leading up to the presidential elections to be held in late 2002; 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 restructurings 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.

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

Relations between Korea and North Korea have been tense over most of Korea's history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current events, including renewed contacts at the highest levels of the governments of Korea and North Korea and increased hostility between North Korea and the United States, and future events that cannot be foreseen at this time. Any increase in the tension, which may occur, for example, if these contacts break down or military hostilities occur, could have a serious adverse effect on our operations and the prices of our common stock and ADSs.

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

Risks relating to our common stock and ADSs

Our agreements with Goldman Sachs Capital Koryo, L.P. and certain affiliated companies of ING Groep N.V. may interfere with our ability to enter into a merger, share exchange or consolidation, thus impairing our future development, and may adversely affect your interest in us.

Under the terms of an investment agreement with Goldman Sachs Capital Koryo, L.P., which is the parent of Goldman Sachs Capital Chosun, Ltd., the selling stockholder in this offering, so long as Goldman Sachs Capital Koryo, directly or indirectly, owns 3% or more of our outstanding common stock (assuming for purposes of this calculation that all of our convertible bonds beneficially owned by Goldman Sachs Capital Koryo have been converted into our common shares), we are required to use our best efforts to cause at least one nominee of Goldman Sachs Capital Koryo to be appointed as a non-executive director of Kookmin Bank. In addition, so long as Goldman Sachs Capital Koryo, directly or indirectly, owns such minimum amount of our shares, we are also effectively required to obtain the consent of Goldman Sachs Capital Koryo to enter into any agreement or understanding with respect to a merger, share exchange or consolidation involving any financial institution or the acquisition of a substantial portion of the assets of any financial institution.

Under the terms of an investment agreement with ING Insurance International B.V. and ING Verzekeringen N.V., which are affiliates of ING Groep N.V., we, as the successor entity to H&CB, are required to use our reasonable efforts to cause two nominees of ING Insurance International to be appointed as our directors so long as ING Groep and its affiliates maintain a minimum shareholding in us as defined in the investment agreement. In addition, in order to avoid triggering a break-up

event under the investment agreement, we are effectively required to obtain the consent of ING Insurance International and ING Verzekeringen, as guarantor under the investment agreement, to enter into any agreement or understanding with respect to a merger or consolidation by us that results in us not being the surviving entity. The merger between the former Kookmin Bank and H&CB constituted a break-up event for purposes of the investment agreement. In addition, in order to maintain the effectiveness of these provisions, pursuant to the investment agreement, ING Groep was required to increase its interest in us to 8.00% by November 1, 2001 and to make additional investments to increase its interest in us to 9.99999% by February 1, 2002. In connection with the merger, H&CB and the other parties to the investment agreement signed a waiver agreement agreeing to suspend these deadlines and ING Groep's right to sell its shares pursuant to the merger break-up event until March 31, 2002 in order to formulate a new structure with respect to the strategic alliance, which includes possible additional investment by ING Groep in us. On March 30, 2002, the parties issued a press release stating their intention to maintain the strategic alliance and agreeing to continue discussions for the formulation of a mutually beneficial strategic alliance structure by the end of May 2002. On June 1, 2002, we issued another press release stating our intention to continue negotiations regarding the strategic alliance, but without setting a deadline for the completion of negotiations. As a result of these events, ING Groep currently is not subject to lock-up restrictions on the shares it owns pursuant to the investment agreement. See "Item 7. Major Stockholders and Related Party Transactions" and "Item 4. Information on the Company—History and Development of the Company—History—History of HC&B."

The Korean government and certain affiliated companies of ING Groep which hold our common shares are not subject to lock-ups in connection with this offering.

As of December 31, 2001, the Korean government beneficially owned approximately 9.64% of the outstanding shares of our common stock, and ING Groep N.V. beneficially owned approximately 4.00% of our outstanding common stock. The current ownership percentages of the Korean government and ING Groep will not decrease as a result of this offering. However, neither the Korean government nor ING Groep N.V. has agreed to any restrictions on the disposition of our shares of common stock that they beneficially own. Currently, we do not know when, how, or what percentage of, our shares beneficially owned by the Korean government or ING Groep will be disposed of following this offering, or to whom such shares will be sold. As a result, we cannot currently predict the impact on us of such sales. Any future sales of our common stock or our ADSs in the public market or otherwise by the government or other stockholders or ADS holders such as ING Groep, or the possibility that such sales may occur, could depress the prevailing market price of our common stock and our ADSs.

Your interest may be diluted by the right or the ability of our major stockholders, including Goldman Sachs Capital Koryo, L.P. and certain affiliated companies of ING Groep N.V., to acquire large blocks of our common stock or our ADSs.

Goldman Sachs Capital Koryo and ING Groep N.V. beneficially owned as of December 31, 2001 approximately 6.52% (excluding convertible bonds) and 4.00%, respectively, of our outstanding common stock. If the conversion rights for all outstanding convertible bonds beneficially owned by Goldman Sachs Capital Koryo were exercised, as of that date it would have beneficially owned approximately 9.83% of our outstanding capital stock. Following this offering, and assuming no exercise of the overallotment option, Goldman Sachs Capital Koryo will beneficially own 2.37% of our outstanding shares, or 5.52% assuming full conversion of the convertible bonds. If the overallotment option is exercised in full, Goldman Sachs Capital Koryo will beneficially own 1.75% of our outstanding shares, or 4.91% assuming full conversion of the convertible bonds. Under the investment agreement between certain affiliates of ING Groep and us, ING Groep may increase its interest in us up to 9.99999% including by causing us to issue or sell shares to it. The conversion of convertible bonds by Goldman Sachs Capital Koryo or the acquisition by ING Groep of additional common stock or ADSs will dilute your interest in us.

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 4.0% of the outstanding shares of voting stock of a nationwide bank such as us. 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 4.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. According to a recent amendment to the Bank Act, which is expected to become effective on July 28, 2002, the share ownership limit of nationwide banks would be increased to 10.0%, with the exception of certain non-financial group companies, whose applicable limit would generally be 4.0%. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds that limit, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order you 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 ₩20 million or, after the effective date of the amendments to the Bank Act, up to 0.03% of the book value of such shares per day until the date of disposal.

You will not be able to exercise dissent and appraisal rights unless you have 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, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights unless you have withdrawn 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.

You may be limited in your ability to deposit or withdraw common stock.

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depository's custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depository 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 (2) the number of shares of common stock on deposit with the custodian for the benefit of the depository 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 100,000,000 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 you surrender ADSs and withdraw common stock, you may not be able to deposit the stock again to obtain ADSs. See "Item 10. Additional Information—Exchange Controls and Securities Regulations."

You 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, you may be unable to participate in our rights offerings and may experience dilution in your holdings. If a registration statement is required for you to exercise preemptive rights but is not filed by us or is not declared effective, you will not be able to exercise your preemptive rights for additional ADSs and you will suffer dilution of your 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 you will receive no value for these rights.

You may be subject to possible tax 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. However, questions have recently been raised by certain Korean tax officials as to whether this ruling also applies to the surrender of depositary shares and withdrawal of underlying stock by a subsequent (as opposed to the initial) holder of depositary shares. Accordingly, in the case of holders of ADSs other than an initial holder, the non-applicability of the securities transaction tax to withdrawals of common stock upon the surrender of ADSs is not entirely certain under Korean tax law.

Your dividend payments and the amount you may realize upon a sale of your 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 you will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that you 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 you 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 10. Additional Information—Exchange Controls and Securities Regulations.”

The market value of your investment may fluctuate due to the volatility of, and government intervention in, 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 restricts share price movements. 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 the history of the KOSPI. On June 17, 2002, the KOSPI closed at 809.16. 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.

The Korean government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community, which can have the intention or effect of depressing or boosting the Korean securities market. In the past, the government has informally:

- both encouraged and restricted the declaration and payment of dividends;
- induced mergers to reduce what it considers excess capacity in a particular industry; and
- induced private companies to publicly offer their securities.

As a result of these activities, the price of the common stock of Korean companies may have been and may currently be higher or lower than the prices that would otherwise prevail in the open market. In the future, market intervention by the government, or the perception that such activity is taking place, may take place or has ceased, may cause sudden movements in the market prices of the common stock and ADSs of Korean companies, which may subsequently affect the market price and liquidity of our common stock and ADSs.

Item 4. INFORMATION ON THE COMPANY

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 “—Business—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. The government’s shareholding in us had decreased to 9.64% on a common share basis and 9.27% on a fully-diluted basis as of December 31, 2001.

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 ₩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 ₩360 billion of new common shares (17,768,870 common shares at ₩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 a conversion price of ₩14,200 per common share. As a result of the merger with H&CB and other adjustment events, the conversion price was adjusted to its current level of ₩22,124 per share, and these bonds could be converted currently into 10,581,269 shares. Prior to this offering, Goldman Sachs Capital Koryo beneficially owned 6.52% of our outstanding common shares, not including any shares entitled to be received upon conversion of the convertible bonds. On a fully

diluted basis, including any shares entitled to be received upon conversion of the convertible bonds, Goldman Sachs Capital Koryo beneficially owned 9.48% of our outstanding common shares prior to this offering. See “Item 7. Major Stockholders and Related Party Transactions.”

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 ₩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 a strategic alliance with certain affiliates of the ING Groep, a leading global financial services group. Through ING Insurance International and ING International Financial Holdings, ING Groep invested ₩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 now beneficially owns 4.00% of our outstanding common shares as a result of the merger. In order to maintain its strategic alliance with us, pursuant to the investment agreement entered into at the time of the strategic alliance, ING Groep was required to increase its interest in us to 8.00% by November 1, 2001 and was required to make additional investments to increase its interest in us to 9.99999% by February 1, 2002. We and ING Groep have agreed to suspend these deadlines in order to formulate a new structure with respect to the strategic alliance, which includes possible additional investments by ING Groep in us. See “Item 7. Major Stockholders and Related Party Transactions.”

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.

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 ₩67,399 billion, its total deposits were ₩51,456 billion, its total liabilities were ₩64,537 billion and it had stockholders' equity of ₩2,849 billion. As required by U.S. GAAP, we recognized H&CB's total assets and liabilities at their estimated fair values of ₩68,347 billion and ₩64,858 billion, respectively. These amounts reflect the recognition of ₩544 billion of negative goodwill, which was allocated to the fixed assets, core deposit intangible asset and credit card relationship intangible asset 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.

On a pro forma basis, had the merger taken effect on January 1, 2001, the combined entity would have had combined interest and dividend income and non-interest income of ₩16,076 billion and net income before extraordinary gain and cumulative effect of accounting change of ₩1,408 billion for the year ended December 31, 2001. As of December 31, 2001, we had combined total assets of ₩168,230 billion, combined total customer deposits of ₩115,036 billion and combined total liabilities of ₩160,287 billion. The following table summarizes certain financial information relating to us, the former Kookmin Bank and H&CB:

	As of or for the year ended December 31,				
	2000		2001		2001
	Kookmin Bank	H&CB	Kookmin Bank (1)	H&CB (2)	Pro Forma Combined (3)
	(in billions of Won)				
Income Statement Data					
Interest and dividend income	₩7,357	₩5,255	₩8,974	₩4,747	₩13,621
Interest expense	4,640	3,452	5,360	2,936	8,012
Net interest income	2,717	1,803	3,614	1,811	5,609
Provision for credit losses	276	377	1,255	691	1,946
Non-interest income	866	636	1,702	753	2,455
Non-interest expense	1,683	1,310	2,406	1,295	3,777
Income tax expense	629	243	625	187	844
Minority interest	81	3	83	5	89
Net income before extraordinary gain and cumulative effect of accounting change	914	506	947	386	1,408
					Actual
Balance Sheet Data					
Total assets	90,791	60,956	168,230	67,399	168,230
Customer loans	57,041	44,927	117,452	49,339	117,452
Customer deposits	56,183	47,279	115,036	51,456	115,036
Total stockholders' equity	3,745	2,356	7,635	2,849	7,635
Goodwill	176	44	162	1	162

(1) Income statement data include the results of H&CB for the two-month period from November 1 to December 31, 2001. Balance sheet data include the balances of H&CB.

(2) As of or for the 10 months ended October 31, 2001.

(3) See "Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data."

A key goal of the merger with H&CB is 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.

In particular, we believe the merger allows us to:

- Create an unparalleled customer base of over 23 million retail customers, or about half of Korea's population. This customer base provides the opportunity to cross-sell a broad range of financial products and services, and thereby increase profitability per customer;
- Build critical mass in our core businesses, which include retail lending, credit cards and small- and medium-sized enterprise lending. We believe we were ranked first in Korea with market shares of approximately 24% with respect to retail lending and approximately 19% with respect to small- and medium-sized enterprise lending as of December 31, 2001, according to our internal estimates;
- Increase our competitiveness in the corporate, international and other segments of the Korean banking market, where we plan to explore further growth opportunities;
- Reduce our costs by consolidating certain operations, such as information technology, or IT, procurement and back-office operations, and eliminating redundant head office personnel. We believe these measures will help improve our productivity and operating efficiency; and
- Achieve further economies of scale by making significant investments in, and continuous upgrades of, our infrastructure and services, including our IT systems, customer database and our Internet banking services.

Following the merger, we created and implemented a plan to integrate the separate operations of the two banks. We have created an integration team which has identified a number of areas where integration of operations is required and where synergies from integration are likely to arise. We have completed the integration of our key business units at the headquarters level, including retail, small- and medium-sized enterprises and large corporate banking units, and have standardized our risk management, accounting and finance and credit approval systems. We plan to establish a single brand name and corporate identity soon after completion of our IT systems integration, which is currently scheduled for September 2002.

As part of the integration planning, 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 intend to introduce a performance-based ranking system which will be used to set grade adjustment and salary considerations. Certain aspects of this may be introduced only following IT system integration, although we intend to introduce at least team, if not individual, bonuses as quickly as possible.
- *Gradual Integration of Dual Brands.* We are currently using both "Kookmin Bank" and "H&CB" as our brand names. However, we intend to integrate the operations of both banks

under a plan designed to enable the new bank to function as a single bank. We will maintain separate brands at least until we have integrated our IT systems and are able to implement a plan to minimize the potential loss of customers as a result of the brand integration.

- *IT Systems Integration.* In order to integrate our operations following the merger, we have elected to adopt the infrastructure and IT systems of H&CB for the merged bank. We believe the H&CB systems are generally more advanced and better suited to achieve our business goals—including the ability to support our strategy and to handle diverse and complex products. We expect the IT systems integration process to be completed by September 2002.
- *Distribution Channels.* Following the merger, we now have a number of different distribution channels serving the same customer groups. However, until our IT systems integration process is complete, we do not intend to close any branches (other than those already found to be unprofitable in the past). 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. We will work to consolidate certain back-office functions to increase cost-efficiencies, both by integrating systems and personnel and by migrating customers to channels which may be easier or more appropriate for them, such as remote or electronic channels. Consistent with our business plan and factors relevant to the implementation of that plan, we currently anticipate rationalizing approximately 10% of our branches (through branch closures, branch combinations, relocation of branches and converting branches to enable them to offer specialized and differentiated services). This will be coordinated with our IT systems integration plan and will take place gradually.
- *Business System Integration.* We are close to completing the integration of our business systems, with the main goal of maximizing cost savings and generating cross-selling capabilities. This integration will take place along side the integration of our IT systems. As part of this process, we have 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 have chosen to adopt the H&CB credit modules to centralize risk assessment and to automate elements of our credit assessment process.

BUSINESS

We are the largest commercial bank in Korea. As of December 31, 2001, we had total assets of ₩168,230 billion and total deposits of ₩115,036 billion. On a Korean GAAP basis, our total assets and total deposits represented, respectively, 31% and 33% shares of the Korean domestic nationwide commercial bank market. 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 1,125 branches, 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 April 30, 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 April 30, 2002, we also had over 168,000 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, 2001, retail loans, credit card loans and credit card receivables accounted for 64.0% of our total loan portfolio.

	As of December 31,					
	1999		2000		2001	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity (1)	₩ 6,034	13.4%	₩ 8,068	13.6%	₩ 37,194	30.8%
Other consumer (2)	6,143	13.7	8,151	13.7	23,312	19.3
Total retail	<u>12,177</u>	<u>27.1</u>	<u>16,219</u>	<u>27.3</u>	<u>60,506</u>	<u>50.1</u>
Credit card	<u>3,362</u>	<u>7.5</u>	<u>8,321</u>	<u>14.0</u>	<u>16,751</u>	<u>13.9</u>
Corporate						
Small- and medium-sized enterprises	18,720	41.6	22,393	37.7	30,498	25.2
Large corporate (3)	9,606	21.4	11,378	19.2	11,993	9.9
Total corporate	<u>28,326</u>	<u>63.0</u>	<u>33,771</u>	<u>56.9</u>	<u>42,491</u>	<u>35.1</u>
Capital markets activities and international banking	<u>1,080</u>	<u>2.4</u>	<u>1,086</u>	<u>1.8</u>	<u>1,146</u>	<u>0.9</u>
Total loans	<u>₩44,945</u>	<u>100.0%</u>	<u>₩59,397</u>	<u>100.0%</u>	<u>₩120,894</u>	<u>100.0%</u>

(1) Includes ₩302 billion, ₩499 billion and ₩1,619 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 1999, 2000 and 2001, respectively.

(2) Includes ₩2,174 billion, ₩2,518 billion and ₩5,612 billion of overdraft loans as of December 31, 1999, 2000 and 2001, respectively.

(3) Includes loans to the Korea Deposit Insurance Corporation, which is a government-controlled entity, in the amount of ₩387 billion, ₩1,587 billion and zero as of December 31, 1999, 2000 and 2001, respectively.

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 accounted for 85% of total domestic private sector mortgages as of December 31, 2001. We also manage 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 December 31, 2001, the National Housing Fund accounted for over 55% of the total amount of mortgage loans outstanding 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. Lending to these enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network. In keeping with industry trends, our credit exposure to large corporate customers is declining 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 over the past three years as the nationwide trend towards credit card use accelerated. Kookmin Credit Card, our KOSDAQ-registered, 76.5%-owned subsidiary, now has more than 11 million card holders and there are more than four million holders of our H&CB-originated BC Card. Of those holding H&CB-originated BC Cards, approximately 1.6 million also hold Kookmin Cards. Our credit card balances (including card loans) have increased from ₩3,362 billion as of December 31, 1999 to ₩16,751 billion as of December 31, 2001.

Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemun-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, and intend to become the first choice bank for retail customers and small- and medium-sized enterprises. We intend to achieve our goals, in part, by taking 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.

The key elements of our strategy are as follows.

Complete integration and realization of the anticipated synergies and growth opportunities.

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 have 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 is expected to be completed in September 2002.
- *Phase three.* Brand and branch integration.

We are currently in the process of implementing phase two. See “—History and Development of the Company.”

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:

- *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 also plan in the second half of 2002 to establish new branches specializing in banking services to high net worth individuals and increase our number of branches to further expand in this market.
- *Leveraging small- and medium-sized enterprise customer relationships.* We have a network of more than 168,000 small- and medium-sized enterprise customers. 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 personal financial services.

The Korean market for personal financial services, such as consumer lending, credit cards 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 as an integral component of retail banking, 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 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, 2001, we had 1,125 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. These included 576 branches that were branded with the “Kookmin Bank” brand and 549 branches that were branded with the “H&CB” brand. 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 40% of our branches and sub-branches are located in Seoul, and more than 23% 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, 2001.

<u>Area</u>	<u>Number of branches</u>	<u>Percentage</u>
Seoul	447	40%
Six largest cities (other than Seoul)	264	23
Other	414	37
Total	<u>1,125</u>	<u>100%</u>

In addition, we have begun to implement the specialization of branch functions. Of our branch network, 20 branches handle corporate transactions exclusively and are dedicated to provide comprehensive services to our corporate customers. Beginning in July 2002, we plan to establish 100 additional branches that will 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.

In connection with the recent merger with H&CB, we are restructuring our branch network through gradual adjustment, relocation and functional conversion of overlapping branches in order to increase revenues and efficiency. We are concentrating our restructuring efforts in Seoul and the other major cities in Korea. Based on our preliminary analysis of our branches following the merger, we believe that we have overlapping coverage with respect to approximately one-quarter of our branches. Our current objective with respect to reorganizing our overlapping branches is to increase the profitability of our branches and to minimize any loss of customers. Consistent with our business plan and factors relevant to the implementation of that plan, we currently anticipate rationalizing approximately 10% of our branches (through branch closures, branch combinations, relocation of branches and converting branches to enable them to offer specialized and differentiated services). This will be coordinated with our IT systems integration plan and will take place gradually.

In 2002, we plan to establish 150 additional branches (through conversion of existing branches or new construction) to meet customer needs and market demand for specialized branches, mini-branches and ATM branches, 100 of which will be established to handle corporate transactions as described above. We also plan to open new relationship management branches for our small- and medium-sized enterprise customers and to establish teams focused on providing services to small office and home office customers. We have also recently publicly announced plans relating to the merger-related refurbishment of our branches.

In order to complement 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. We plan to install 2,740 additional automated banking machines in 2002 at a cost of ₩66 billion, 1,667 of which will be in replacement of existing automated banking machines. As of December 31, 2001, we had 4,074 ATMs, 4,479 cash dispensers and 904 passbook printers. These included 1,709 ATMs, 2,464 cash dispensers and 856 passbook printers that were branded with the "Kookmin Bank" brand and 2,365 ATMs, 2,015 cash dispensers and 48 passbook printers that were branded with the "H&CB" brand.

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. We estimate that, in 2001, automated banking machine transactions accounted for approximately 75% of H&CB's total deposit and withdrawal transactions for amounts less than ₩700,000, and for approximately 61% of Kookmin Bank's total deposit and withdrawal transactions.

The following table sets forth information, for the periods indicated, regarding the number of transactions and the fee revenue of our ATMs.

	For the year ended December 31,					
	1999		2000		2001	
	Kookmin Bank	H&CB (1)	Kookmin Bank	H&CB (1)	Kookmin Bank	H&CB (1)
ATMs (2)						
Number of transactions (millions) . . .	239	155	269	215	291	271
Fee revenue (in billions of Won)	₩ 27	₩ 14	₩ 30	₩ 21	₩ 36	₩ 23

(1) Reflects historical information of H&CB prior to the merger for 1999 and 2000, and the first 10 months of 2001 included in the figures for 2001 reflect historical information of H&CB prior to the merger.

(2) Includes ATMs which only dispense cash.

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,					
	1999		2000		2001	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans . . .	₩ 6,034	13.4%	₩ 8,068	13.6%	₩37,194	30.8%
Other consumer loans (1)	6,143	13.7	8,151	13.7	23,312	19.3
Total	₩12,177	27.1%	₩16,219	27.3%	₩60,506	50.1%

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

As of December 31, 2001, mortgage and home equity loans and other consumer loans accounted for 61.5% and 38.5%, 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 38% to 83%. 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 the borrower's creditworthiness, the appropriateness of the use of proceeds and our ability to take a first-priority mortgage. 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 our credit risk, we take collateral and personal guarantees and we use the deposits that the borrower has with us as collateral.

Mortgage and Home Equity Lending

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

	As of or for the year ended December 31,				
	1999		2000		2001 (1)
	Kookmin Bank	H&CB	Kookmin Bank	H&CB	Kookmin Bank
	(in billions of Won, except percentages)				
Mortgage and home equity lending	₩6,034	₩19,836	₩8,068	₩25,691	₩37,194
Mortgage and home equity lending as a percentage of total loans	13.4%	61.7%	13.6%	55.6%	30.8%

(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, 2001, our market share of the outstanding Korean private mortgage market was 85% based on our internal statistics. We do not receive any fee income related to the origination of 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 73% 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 who hold deposit accounts with us receive preferential interest rates on loans.

As of December 31, 2001, approximately 50.9% of our mortgage loans were secured by residential property which is the subject of the loan, 29.4% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 19.7% of our 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). For the year ended December 31, 2001, 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 46%. One reason that our loan-to-value ratio is so low 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. See “Item 3. Key Information—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.”

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 0.5% 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.

Our current three-month, six-month and twelve-month base rates are approximately 6.4%, 7.75% and 7.95%, respectively. Our current fixed rate is 8.30%.

As of December 31, 2001, approximately ₩34,127 billion, or 91.8%, of our outstanding mortgage and home equity loans were priced based on a floating rate and ₩3,068 billion, or 8.2%, 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, 2001, approximately ₩13,086 billion, or 56.1% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some 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, 2001, was approximately ₩7,232 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 “—Assets and Liabilities—Risk Management—Credit Risk Management.” For overdraft loans, we also add 50 basis points in determining the interest rate.

As of December 31, 2001, approximately 66.5% 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 recent merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2001, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was ₩38,557 billion, ₩29,440 billion and ₩83,129 billion as of December 31, 1999, 2000 and 2001, respectively, which constituted 69.3%, 68.2% and 72.3%, 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 3.9% of our total deposits as of December 31, 2001 and paid average interest of 1.60% in 2001.
- *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 51.0% of our total deposits as of December 31, 2001, and paid average interest of 7.21% in 2001. 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 1.0 to 2.0%. Retail and corporate savings deposits constituted approximately 26.4% of our total deposits as of December 31, 2001, and paid average interest of 1.88% in 2001.
- *Certificates of deposit*, the maturities of which range from 30 days to 365 days with a required minimum deposit of ₩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 29 currencies.

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 which 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 ₩2 million to ₩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 ₩50,000 to ₩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 April 30, 2002, we had over 3.7 million priority customers, representing about 16% of our total retail customer base of over 23 million retail customers (of this 23 million, there are approximately 6.2 million customers who hold both “Kookmin Bank”-branded and “H&CB”-branded accounts). Of our total deposit amount of ₩115.0 trillion as of December 31, 2001, our priority customers held approximately two-thirds. In 2001, revenues from our priority customers accounted for approximately 59% of our revenues derived from our retail customers.

In addition to our “priority customer” program, we have focused on customers with higher net worth. We are increasing the number and types of wealth management services that we provide to these customers in order to maximize our ability to cross-sell products and services to them. These products include credit cards, trust products, asset management services and business products. In March 2002, after significant research and planning, we launched the Private Banking Business Unit at our headquarters that we intend will conduct business through specialized private banking branches from the second half of 2002. By providing high-quality, convenient services to these priority customers, we hope to increase loyalty and maintain or increase the number of these customers.

The Monetary Board of the Bank of Korea (the “Monetary Board”) 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 Board 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.

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 ₩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, for the year ended December 31, 2001, we paid ₩62 billion.

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 76.5%-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.

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 5. Operating and Financial Review and Prospects—Reconciliation with Korean GAAP.”

	As of or for the year ended December 31,						
	1999		2000		2001		
	Kookmin Card	BC Card (1)	Kookmin Card	BC Card (1)	Kookmin Card	BC Card (1)	Kookmin Bank (2)
	(in billions of Won, except number of holders and accounts and percentages)						
Number of credit card holders (at year end) (thousands)							
General accounts	5,453	1,899	8,123	3,054	10,491	4,018	14,509
Corporate accounts	37	43	51	17	96	24	120
Total	<u>5,490</u>	<u>1,942</u>	<u>8,174</u>	<u>3,071</u>	<u>10,587</u>	<u>4,042</u>	<u>14,629</u>
Number of merchants (at year end) (thousands)	936	149	1,231	196	1,675	263	1,938
Active ratio (3)	N/A	N/A	66%	64%	71%	65%	—
Credit card fees							
Merchant fees (4)	₩ 219	₩ 66	₩ 375	₩ 108	₩ 546	₩ 187	₩ 586
Installment and cash advance fees	271	112	726	267	926	500	1,013
Annual membership fees	28	7	35	6	40	10	41
Other fees	165	6	66	7	84	20	94
Total	<u>₩ 683</u>	<u>₩ 191</u>	<u>₩ 1,202</u>	<u>₩ 388</u>	<u>₩ 1,596</u>	<u>₩ 717</u>	<u>₩ 1,734</u>
Charge volume (5)							
General purchase	₩ 4,788	₩1,159	₩ 9,068	₩ 2,273	₩14,851	₩ 3,528	₩15,504
Installment purchase	2,036	729	4,282	1,415	6,188	3,025	6,985
Cash advance	7,088	2,954	24,526	8,850	44,343	15,720	47,124
Card loan (6)	347	N/A	922	3,171	2,774	7,579	4,899
Total	<u>₩14,259</u>	<u>₩4,842</u>	<u>₩38,798</u>	<u>₩15,709</u>	<u>₩68,156</u>	<u>₩29,852</u>	<u>₩74,512</u>
Outstanding balance (at year end) (7)							
General purchase	₩ 522	₩ 150	₩ 1,105	₩ 281	₩ 1,377	₩ 453	₩ 1,830
Installment purchase	829	296	1,891	594	2,632	1,325	3,957
Cash advance	1,315	492	3,218	1,542	3,149	1,972	5,121
Card loan (6)	856	299	969	494	2,247	934	3,181
Total (8)	<u>₩ 3,522</u>	<u>₩1,237</u>	<u>₩ 7,183</u>	<u>₩ 2,911</u>	<u>₩ 9,405</u>	<u>₩ 4,684</u>	<u>₩14,089</u>
Average outstanding balances							
General purchase	₩ 429	₩ 127	₩ 810	₩ 225	₩ 1,247	₩ 399	₩ 1,693
Installment purchase	675	242	1,262	418	2,306	894	3,479
Cash advance	768	351	2,492	978	4,880	1,913	6,987
Card loan (6)	745	250	1,068	365	1,780	689	2,642
Delinquency ratios							
Less than 1 month	2.47%	2.95%	3.27%	4.10%	1.81%	2.53%	2.00%
From 1 month to 3 months	1.23	1.74	1.31	1.94	1.04	2.14	1.33
From 3 months to 6 months	0.61	1.24	0.71	1.15	0.94	1.75	1.16
Over 6 months	5.22	1.67	0.69	1.03	0.33	1.63	0.68
Total	<u>9.53%</u>	<u>7.60%</u>	<u>5.98%</u>	<u>8.22%</u>	<u>4.12%</u>	<u>8.05%</u>	<u>5.17%</u>
Write-offs (gross)	₩ 312	₩ 43	₩ 204	₩ 26	₩ 426	₩ 147	₩ 456
Recoveries	30	20	40	16	83	22	89
Net write-offs	<u>₩ 282</u>	<u>₩ 23</u>	<u>₩ 164</u>	<u>₩ 10</u>	<u>₩ 343</u>	<u>₩ 125</u>	<u>₩ 367</u>
Gross write-off ratio (9)	11.92%	4.36%	3.62%	1.31%	4.17%	3.74%	3.07%
Net write-off ratio (10)	10.78	2.31	2.91	0.52	3.36	3.18	2.47
Asset sales	—	—	—	—	₩ 695	—	₩ 695
Asset securitization (11)	—	—	₩ 1,189	—	2,757	—	2,757

- (1) BC Card-related amounts for 1999 and 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) Reflects historical information of both Kookmin Card for 2001 and BC Card for the last two months of 2001, following the merger.
- (3) 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 2001. "N/A" means not available.
- (4) 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%.
- (5) Represents the aggregate cumulative amount charged during the year.
- (6) 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. Card loans are provided by BC Card and Kookmin Credit Card's Visa cards.
- (7) 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.
- (8) Total outstanding balances pursuant to U.S. GAAP for Kookmin Card and BC Card, respectively, were ₩3,362 billion and ₩1,216 billion as of December 31, 1999, ₩8,321 and ₩2,881 billion as of December 31, 2000 and ₩12,131 billion and ₩4,620 billion as of December 31, 2001.
- (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 which 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, as interest rates in Korea have started to increase commencing in 2002, concerns have been raised regarding the high levels of credit card usage and the possibility of a deterioration in the asset quality of credit card portfolios of Korean financial institutions. In April and May 2002, the Financial Supervisory Commission announced plans to increase regulation of the credit card industry. See "Item 3. Key Information—Risk Factors—Risks relating to our retail credit portfolio—Government regulation of credit card operations has increased significantly."

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 required to pay for their purchases within approximately 20 to 60 days of purchase depending on their payment cycle. Delinquent accounts are charged penalty interest and closely monitored. For installment purchases, Kookmin Credit Card charges interest on unpaid installments at rates that vary according to the terms of repayments. See "Item 3. Key Information—Risk Factors—Risks relating to our retail credit portfolio—We may not be able to sustain the rate of growth or credit quality of our retail loan and credit card portfolios."

We believe that the merger provides 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 continue to offer both Kookmin Cards and BC Cards for the near future, although we are in the process of conducting an internal review to develop a long-term strategy, particularly with respect to the potential integration of the two brands.

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 the first financial institution 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, 2001, we owned 76.5% of the outstanding shares of Kookmin Credit Card.

As of December 31, 2001, Kookmin Credit Card had issued more than 11 million credit cards, representing 12.6% of the total credit cards issued in Korea based on its internal statistics. Of the credit cards outstanding, approximately 71% were active, meaning that they had been used at least once during the previous twelve months. As of December 31, 2001, the Korean market share for Kookmin Credit Card with respect to outstanding credit card balances was 14.7% according to the Financial Supervisory Commission. 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.

Kookmin Card holders 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 2.5%.

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 2001, our Kookmin Credit Card operations generated ₩2,329 billion in revenues compared to ₩1,476 billion in 2000 and ₩916 billion in 1999.

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 12 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, 2001, we owned 4.95% of BC Card.

As of December 31, 2001, BC Card, on our behalf, had issued 5.0% of the total credit cards issued in Korea based on its internal statistics. As of December 31, 2001, BC Card, on our behalf, had more than four million cardholders. Of the credit cards outstanding as of December 31, 2001, approximately 65% 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, 2001, the Korean market share for BC Card issued on our behalf with respect to credit card transaction volumes was 5.1%. 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 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. 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%.

In 2001, and including the results of operations for periods when this business was controlled by H&CB, we generated ₩816 billion in revenues from our credit card operations from BC Card, compared to generation by H&CB of ₩441 billion in 2000 and ₩229 billion in 1999.

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, 1999, 2000 and 2001, we had 118,897, 150,544 and 168,163 small- and medium-sized enterprise customers and 717, 737 and 1,129 large corporate customers, respectively. For 1999, 2000 and 2001, 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 ₩11.5 billion, ₩16.4 billion and ₩22.6 billion, respectively. Of our branch network, we have 20 branches dedicated exclusively to corporate banking and intend to increase the number of these branches.

On the lending side, the following table sets forth the balances and percentage of our total loans attributable to our small- and medium-sized enterprise business and our large corporate business as of the dates indicated. 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.

	As of December 31,					
	1999		2000		2001	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	₩18,720	41.6%	₩22,393	37.7%	₩30,498	25.2%
Large corporate loans	9,606	21.4	11,378	19.2	11,993	9.9
Total	<u>₩28,326</u>	<u>63.0%</u>	<u>₩33,771</u>	<u>56.9%</u>	<u>₩42,491</u>	<u>35.1%</u>

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 ₩23,179 billion as of December 31, 2001, or 20.2% 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. 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. 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 which 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;

- begun operating a relationship management system to provide targeted customer service to small- and medium-sized enterprises. We have 20 corporate banking branches and 52 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.

We use the term “small- and medium-sized enterprises” as defined in the Small and Medium Industry Basic Act and related regulations. The general criteria 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 ₩8 billion) or sales revenues (equal to or less than ₩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, 2001, working capital loans and facilities loans accounted for 88.9% and 11.1%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2001, 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 168,163 customers and an estimated market share of 18.7%.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or be unsecured. As of December 31, 2001, secured loans and loans guaranteed by a third party accounted for 50.3% and 32.0%, respectively, of our small- and medium-sized enterprise loans. Among the secured loans, approximately 91.7% were secured by real estate and 8.3% 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.

In order to service small- and medium-sized enterprises and attract high-quality small- and medium-sized enterprise borrowers, we have established 12 Business Loan Centers in Korea, seven of which are located in Seoul. These centers provide various services to small- and medium-sized enterprises, including financial and consulting advice for new potential small- and medium-sized enterprise customers and tax and legal advice. These centers also engage in the credit evaluation of loan applicants and the appraisal of collateral.

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 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.

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. We determine our cost of funding based on our Market Opportunity Rate system or on our Floating Prime Rate system. Currently, loans offered through our "Kookmin Bank"-branded channel are priced based on the Floating Prime Rate system and loans offered through our "H&CB"-branded channel 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, 2001, our Market Opportunity Rate for small-and medium-sized enterprise loans was 4.72% for three months, 5.45% for six months and 5.97% for one year, respectively.

Our Floating Prime Rate system takes into account our average cost of funding, an activity-based cost and a spread calculated to achieve a target "return on asset" ratio set for the year. In addition, we add a risk premium that is measured by such factors as the credit rating assigned to a particular borrower and the value and type of collateral. As of December 31, 2001, our Floating Prime Rate for small-and medium-sized enterprise loans was 7.8% for loans with a maturity of five years or less and 8.8% for loans with a maturity of over five years, respectively.

For both our Market Opportunity Rate system and our Floating Prime 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, 2001, 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 fixed rates based on our Market Opportunity Rate system. The rates we actually offer for collective loans vary based on the borrowers' credit rating determined by our credit rating system. Our collective housing loans are currently subject to a limit based on the total collateral value of the housing units. Collective housing

loans currently bear interest rates of 8.75% to 10.8% per year as determined by our Risk Management Committee. Repayment schedules range from one to three years.

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 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, 2001, working capital loans and facilities loans accounted for 83.6% and 16.4% of our total large corporate loans. We also offer collective housing loans (as described above under “—Corporate Banking—Small- and Medium-Sized Enterprise Banking—Lending Activities”) to large corporate clients.

As of December 31, 2001, secured loans and loans guaranteed by a third party accounted for 28.2% and 13.0%, respectively, of our large corporate loans. Among the secured loans, approximately 94.9% were secured by real estate and approximately 5.1% 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 “—Corporate Banking—Small- and Medium-Sized Enterprise Banking—Lending Activities” above.

As of December 31, 2001, in terms of our outstanding loan balance, 48.6% of our large corporate loans was extended to borrowers in the manufacturing industry, 6.8% was extended to borrowers in the construction industry, and 5.4% 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 “—Corporate Banking—Small- and Medium-Sized Enterprise Banking—Pricing” above. As of December 31, 2001, the Floating Prime Rate, which is utilized in pricing loans offered by the “Kookmin Bank”-branded channel and the Market Opportunity Rate, which is utilized in pricing loans offered by the “H&CB”-branded channel, were 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, 1999, 2000 and 2001, our investment portfolio, which consists of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of ₩19,251 billion, ₩19,881 billion and ₩32,056 billion and represented 27.0%, 21.9% and 19.1% 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 enterprises and debt securities issued by financial institutions. As of December 31, 1999, 2000 and 2001, we held debt securities with a total book value of ₩17,293 billion, ₩18,169 billion and ₩24,311 billion, respectively, of which:

- held-to-maturity debt securities accounted for ₩7,765 billion, ₩9,005 billion and ₩13,225 billion, or 44.9%, 49.6% and 54.4%, respectively;
- available-for-sale debt securities accounted for ₩7,602 billion, ₩6,718 billion and ₩8,772 billion or 44.0%, 37.0% and 36.1%, respectively; and
- trading debt securities accounted for ₩1,926 billion, ₩2,447 billion and ₩2,314 billion or 11.1%, 13.5% and 9.5%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 1999, 2000 and 2001, amounted to:

- ₩3,377 billion, ₩4,855 billion and ₩8,915 billion, or 43.5%, 53.9% and 67.4%, respectively, of our held-to-maturity debt securities;
- ₩3,744 billion, ₩3,536 billion and ₩3,675 billion, or 49.3%, 52.6% and 41.9%, respectively, of our available-for-sale debt securities;
- ₩1,021 billion, ₩1,756 billion and ₩1,229 billion, or 53.0%, 71.8% and 53.1%, 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 equities listed on the Korea Stock Exchange or KOSDAQ. As of December 31, 1999, 2000 and 2001:

- equity securities in our available-for-sale portfolio had a book value of ₩565 billion, ₩1,563 billion and ₩3,552 billion, or 6.9%, 18.9% and 28.8% of our available-for-sale portfolio, respectively; and
- equity securities in our trading portfolio had a book value of ₩1,393 billion, ₩149 billion and ₩4,193 billion, or 42.0%, 5.7% and 64.4% of our debt and equity trading portfolio, 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.

The following table shows, as of the dates indicated, the gross unrealized gains and losses within our investment securities portfolio and the amortized cost and fair value of the portfolio by type of investment security.

	As of December 31, 1999			
	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	₩3,781	₩ 66	₩103	₩3,744
Corporate	1,032	49	26	1,055
Financial institutions	2,074	21	39	2,056
Foreign governments	29	9	1	37
Mortgage-backed securities and asset-backed securities	—	—	—	—
Other debt securities	699	15	4	710
Subtotal	<u>7,615</u>	<u>160</u>	<u>173</u>	<u>7,602</u>
Equity securities	541	25	1	565
Total available-for-sale securities	<u>₩8,156</u>	<u>₩185</u>	<u>₩174</u>	<u>₩8,167</u>
Held-to-maturity securities:				
Korean Treasury securities and government agencies	₩3,377	₩ 9	—	₩3,386
Corporate	434	9	₩ 8	435
Financial institutions	2,813	1	2	2,812
Foreign governments	188	17	1	204
Mortgage-backed securities and asset-backed securities	20	—	—	20
Bond Market Stabilization Fund	928	19	—	947
Other debt securities	5	—	—	5
Total held-to-maturity securities	<u>₩7,765</u>	<u>₩ 55</u>	<u>₩ 11</u>	<u>₩7,809</u>

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	₩3,419	₩121	₩ 4	₩3,536
Corporate (1)	1,266	107	10	1,363
Financial institutions (2)	1,516	38	5	1,549
Foreign governments	26	6	—	32
Mortgage-backed securities and asset-backed securities	154	3	—	157
Other debt securities	80	1	—	81
Subtotal	<u>6,461</u>	<u>276</u>	<u>19</u>	<u>6,718</u>
Equity securities	1,530	49	16	1,563
Total available-for-sale securities	<u>₩7,991</u>	<u>₩325</u>	<u>₩35</u>	<u>₩8,281</u>
Held-to-maturity securities:				
Korean Treasury securities and government agencies	₩4,856	₩260	—	₩5,116
Corporate (3)	529	16	₩ 1	544
Financial institutions (4)	2,754	12	2	2,764
Foreign governments	99	3	1	101
Mortgage-backed securities and asset-backed securities	766	10	—	776
Other debt securities	1	—	—	1
Total held-to-maturity securities	<u>₩9,005</u>	<u>₩301</u>	<u>₩ 4</u>	<u>₩9,302</u>

(footnotes on following page)

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

- (1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of ₩139 billion in 2000 and ₩241 billion in 2001.
- (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 ₩1,002 billion as of December 31, 2000 and ₩1,907 billion as of December 31, 2001. 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 ₩157 billion in 2000 and ₩156 billion in 2001.
- (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 ₩1,160 billion as of December 31, 2000 and ₩1,402 billion as of December 31, 2001. 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 ₩8,525 billion in 1999 to ₩13,730 billion in 2000 and to ₩25,487 billion in 2001. Our net trading revenue from derivatives and foreign exchange spot contracts for the year ended December 31, 1999, 2000 and 2001 was ₩249 billion, ₩74 billion and ₩89 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.

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. All 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, 1999, 2000 and 2001.

	As of December 31,					
	1999		2000		2001	
	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	₩ 6	₩ 6	₩ 2	₩ 2	₩ 3	₩ 4
Foreign exchange derivatives	238	214	449	654	254	202
Interest rate derivatives	71	77	57	62	83	81
Equity derivatives	1	—	—	—	27	—
Credit derivatives	1	1	1	—	—	—
Total	<u>₩317</u>	<u>₩298</u>	<u>₩509</u>	<u>₩718</u>	<u>₩367</u>	<u>₩287</u>

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes as of December 31, 1999, 2000 and 2001.

	As of December 31,					
	1999		2000		2001	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(in billions of Won)					
Foreign exchange derivatives	₩1	—	—	—	—	—
Interest rate derivatives	3	₩47	₩2	₩51	—	—
Total	<u>₩4</u>	<u>₩47</u>	<u>₩2</u>	<u>₩51</u>	<u>—</u>	<u>—</u>

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 as a result of our merger with H&CB. We believe that our participation in the asset-backed securities market will provide us with an alternate source of fee income. In 2001, we were involved in asset securitization transactions with an initial

aggregate issue amount of ₩20,397 billion. In 2000, the former Kookmin Bank and H&CB were involved in asset securitization transactions with an initial aggregate issue amount of ₩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 ₩100 million, with maturities of 30 days or less. Typically, call loans have maturities of one day. As of December 31, 2001, we had made call loans of ₩1,372 billion and borrowed call money of ₩2,701 billion, compared to ₩991 billion and ₩581 billion, respectively, as of December 31, 2000. The interest rates on these call loans or call money range from 3.0% to 6.8%.

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 M&A brokerage. In 2001, we generated investment banking revenue of ₩83.7 billion, consisting of ₩71.1 billion of interest income and ₩12.6 billion of fee income, from 32 financing arrangements and 21 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.

Our investment banking operations are managed by 24 employees, 17 in the Project Finance & Structured Finance Section and seven in the Equity Investment Section.

International Banking

We engage in various international banking activities, including foreign exchange services and 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 funding through our international banking operations. Since the Korean financial crisis, which began in late 1997, we have focused on managing the risk of our existing foreign currency assets while selectively providing financing to and making investments in overseas subsidiaries of Korean companies to increase our rate of recovery.

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

	As of December 31,	
	2000	2001
	(in millions of US\$)	
Total foreign currency assets	\$7,050	\$6,817
Foreign currency assets managed by International Banking Business Unit	3,475	3,814
Foreign currency borrowings		
Long-term borrowings	2,559	2,082
Short-term borrowings	824	1,506
Total borrowings	<u>\$3,383</u>	<u>\$3,588</u>

As of December 31, 2001, the table below sets forth our overseas subsidiaries and branches currently in operation as of such date.

<u>Overseas Subsidiaries and Branches (1)</u>	<u>Location</u>
Subsidiaries	
Kookmin Bank Luxembourg S.A.	Luxembourg
Kookmin Finance Hong Kong Ltd.	Hong Kong
Kookmin Bank International (London) Ltd.	England
Kookmin Finance Asia Ltd. (H.K.) (2)	Hong Kong
Kookmin Leasing & Finance (Hong Kong) Ltd. (3)	Hong Kong
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.
(2) Subsequent to the year end, in February of 2002, Kookmin Finance Asia Ltd. (H.K.) merged with Kookmin Finance Hong Kong Ltd. Kookmin Finance Hong Kong Ltd. was the surviving entity.
(3) Investments in Kookmin Leasing & Finance (Hong Kong) Ltd. are held by Kookmin Leasing Co., Ltd.

The principal activities of our overseas branches and subsidiaries are providing trade financing and local currency funding for Korean companies and Korean nationals in the overseas market and providing foreign exchange services in conjunction with our headquarters. On a limited basis, our overseas branches and subsidiaries also engage in the investment and trading of securities of foreign issuers.

Trustee and Custodian Services Relating to Securities Investment Trusts

We also act as a trustee for 39 securities investment trusts, which are entities established by securities investment trust management companies to invest in securities using funds raised by the sale of beneficiary certificates in such trusts to investors. We receive a fee for acting as a trustee and generally perform the following functions:

- holding securities for the benefit of the securities investment trust;
- receiving 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; and
- in certain cases, authenticating beneficiary certificates issued by the securities investment trust and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2001, our fee income from our trustee services was ₩19.6 billion. Around 30% of the securities investment trusts for which we provide trustee services are managed by Jooeun Investment Trust Management which is a subsidiary owned 80% by us and 20% by ING Insurance International.

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 value of the assets under management and (2) performance fees that are based upon the performance of the trust account operation. In 2001, 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 23 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, 2001, the total balance of our money trusts (under Korean GAAP) was ₩19,740 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 do not consolidate trust accounts or recognize 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 of December 31,		
	<u>1999 (1)</u>	<u>2000 (1)</u>	<u>2001</u>
	(in billions of Won)		
Principal and interest guaranteed trusts	₩ 1,245	₩ 77	₩ 3
Principal guaranteed trusts	1,420	2,258	5,394
Performance trusts	<u>21,490</u>	<u>18,014</u>	<u>14,343</u>
Total	<u>₩24,155</u>	<u>₩20,349</u>	<u>₩19,740</u>

(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 3% between December 31, 2000 and December 31, 2001. These changes were the result of a number of factors that made investing in trust accounts less attractive, such as increased competition, a drop in yields resulting from an increase in interest rates, increased fluctuations in bond interest rates and improved performance of the Korean stock market. This shift from performance trusts to principal guaranteed trusts was primarily due to customer demand.

For 2002, we expect a further decline in trust-related revenues, as expected increases in interest rates lead to declines in the values of fixed-rate security investments and as the balances of non-marked-to-market funds decrease.

As of December 31, 2001, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2001, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of ₩18,573 billion, of which ₩17,283 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, 2001, under Korean GAAP, our trust accounts had made loans in the principal amount of ₩1,118 billion (excluding loans from the trust accounts to our banking accounts of ₩787 billion), which accounted for approximately 6% 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, 2001, 71.8% 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. As of December 31, 2001, equity securities in our money trust accounts amounted to ₩880 billion on a Korean GAAP basis, which accounted for approximately 4.5% of our total money trust assets. Of this amount, ₩848 billion was from specified money trusts and ₩32 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. As of December 31, 2001, the balance of the money trusts for which we guaranteed both the principal and interest was ₩3 billion on a Korean GAAP basis, 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. As of December 31, 2001, the balance of the money trusts for which we guaranteed only the principal was ₩5,394 billion on a Korean GAAP basis. In addition, following recent statements by the Korean government, we believe that by the end of 2002 we will 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 in our 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 1999, 2000 and 2001, we made payments from our banking accounts to cover shortfalls in our guaranteed return trusts of ₩8 billion, ₩236 billion and ₩31 billion, respectively. 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 ₩119 billion in 1999, ₩113 billion in 2000 and ₩203 billion in 2001 on a Korean GAAP basis.

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

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 2001, our property trust fees ranged from 0.005% to 0.1% of total assets under management depending on the type of trust account product. As of December 31, 2001, the aggregate balance of our property trusts totaled ₩12,560 billion. Although the aggregate balance of our money trusts has been declining, the aggregate balance of our property trusts has been increasing.

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

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, 2001, the National Housing Fund accounted for over 55.2% of the total amount of housing loans outstanding 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 November and December 2001, we received total fees of ₩33 billion for our management of the National Housing Fund, which accounted for 2.32% of our total fee and commission revenue during 2001. In the ten months ended October 31, 2001, H&CB received total fees of ₩149 billion for managing the National Housing Fund. In 2000, H&CB received total fees of ₩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 ₩18 billion worth of lottery tickets were sold each month.

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 recently amended so that other financial institutions could also be designated by the Minister of Construction and Transportation 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 on the part of us, as manager of the National Housing Fund, where we have clear responsibility for non-performing National Housing Fund loans or where losses result to the National Housing Fund due to our negligent management. The Ministry of Construction and Transportation also announced that it intends to retain outside consultants to review the existing management and fee structure for the National Housing Fund, and that it plans to consider various long-term measures for improving the overall management of the fund, including the diversification of the managers of the fund.

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,					
	1999		2000		2001	
	Kookmin Bank	H&CB	Kookmin Bank	H&CB	Kookmin Bank	H&CB
Telephone banking:						
Number of users	1,187,462	1,240,662	1,673,141	1,574,198	2,241,987	1,908,576
Number of transaction (thousands)	92,492	33,126	128,693	39,007	188,748	59,825
Fee revenue (in millions of Won)	₩4,276	₩1,646	₩5,720	₩3,102	₩6,080	₩3,468
Internet banking (1):						
Number of users	378,224	327,854	1,265,406	494,262	1,667,324	856,658
Number of transactions (thousands)	16,386	7,876	53,364	12,677	173,099	66,028
Fee revenue (in millions of Won)	₩993	₩254	₩1,545	₩493	₩2,685	₩886

(1) Includes PC banking statistics.

We estimate that approximately 6% of our Internet users are overlapping customers.

Telebanking

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 field calls from customers and engage in telemarketing.

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;
- *www.onkookmin.net*—our Internet portal site offers one-stop access to various types of customer-targeted content, featuring travel and entertainment information and links to Internet partners in such areas as securities trading, insurance and credit cards, and also provides Internet shopping mall services; and
- *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 to provide Cheil Chedang with cash management services, which included automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2001, we provide fund management services to over 3,000 large corporations and small- and medium-sized enterprises.

Subsidiaries

The following table provides summary information for our operating subsidiaries which are consolidated in our consolidated financial statements as of and for the year ended December 31, 2001, including contribution to our total assets, net income, operating income and stockholders' equity.

Subsidiary	Percentage of Ownership	Total Assets	Net Income	Operating Income	Stockholders' Equity
			(in millions of Won)		
Kookmin Credit Card Co., Ltd. (1)	76.45%	₩10,526,915	₩393,512	₩533,790	₩1,236,071
Kookmin Leasing Co., Ltd.	88.66	597,665	68,429	(14,524)	1,512
Kookmin Venture Capital Co., Ltd.	94.11	176,898	(2,040)	(1,612)	45,326
Kookmin Data System Corp	99.98	15,459	2,511	3,397	12,844
Kookmin Futures Co., Ltd.	99.98	42,533	2,428	3,810	23,735
Kookmin Bank Venture Capital Co., Ltd.	99.99	75,666	4,084	5,901	67,863
Kookmin Bank Investment Trust Management Co., Ltd.	87.00	39,257	2,391	4,833	37,832
Kookmin Bank Luxembourg S.A.	100.00	345,809	(5,610)	3,380	(12,573)
Kookmin Finance Asia Ltd. (H.K.)	100.00	18,932	1,845	2,969	11,525
Kookmin Leasing & Finance (Hong Kong) Ltd. (2)	88.66	91,665	26,844	16,472	(130,551)
Kookmin Bank International (London) Ltd.	100.00	255,679	10,976	12,625	54,482
Joeun Leasing Co., Ltd.	85.43	220,993	4,960	4,960	18,194
Joeun Investment Trust Management Co., Ltd.	80.00	56,154	4,880	5,186	53,649
Joeun Industrial Co., Ltd. (3)	100.00	451,710	(13,852)	(13,852)	(47,601)
Joeun Real Estate Trust Co., Ltd.	100.00	293,577	6,395	8,140	82,293
Frontier Investment Corp	100.00	16,616	(1,534)	(1,534)	16,385
Kookmin Finance Hong Kong Ltd.	100.00	299,662	(5,253)	(5,253)	50,353

(1) We held 74.78% directly and Kookmin Leasing Co., Ltd. held 1.67%.

(2) Investments in Kookmin Leasing & Finance (Hong Kong) Ltd. are held by Kookmin Leasing Co., Ltd.

(3) Joeun Industrial Co., Ltd. began liquidation proceedings on March 12, 2002.

Further information regarding our subsidiaries is provided below.

- *Kookmin Credit Card Co., Ltd.* was established in September 1987 and conducts credit card operations, consumer installment financing, factoring and provision of payment guarantees. We provide a significant portion of credit card services through our national network.
- *Kookmin Leasing Co., Ltd.* was established in Korea in October 1984 to engage in leasing industrial equipment. In December 2000, a work-out plan of Kookmin Leasing was finalized.
- *Kookmin Venture Capital Co., Ltd.* was established in Korea in November 1986 to invest in and finance venture companies.
- *Kookmin Data System Corp.* was established in Korea in September 1991 to provide software services to us and other financial institutions.

- *Kookmin Futures Co., Ltd.* was established in Korea in March 1997 to act as a broker-dealer for domestic and overseas futures transactions.
- *Kookmin Bank Venture Capital Co., Ltd.* was established in Korea in March 1990 to invest in and finance venture companies.
- *Kookmin Bank Investment Trust Management Co., Ltd.* was established in Korea in October 1989 to engage in the securities investment trust business. We have recently agreed to sell our entire stake in this company to Morgan Stanley for ₩44.2 billion (US\$34.5 million).
- *Kookmin Bank Luxembourg S.A.* was established in Luxembourg in October 1991 to engage in financing activities in the international financial markets.
- *Kookmin Finance Asia Ltd. (H.K.)* was established in Hong Kong in February 1996 to engage in financing activities. Subsequent to the year end, in February of 2002, Kookmin Finance Asia Ltd. (H.K.) merged operations with Kookmin Finance Hong Kong Ltd. Kookmin Finance Hong Kong Ltd. was the surviving entity.
- *Kookmin Leasing & Finance (Hong Kong) Ltd.* was established in Hong Kong in May 1991 to invest in and finance foreign subsidiaries of Korean and foreign companies.
- *Kookmin Bank International (London) Ltd.* was established in England in November 1991 to engage in financing activities.
- *Joeeun Leasing Co., Ltd.* was established in June 1991 to engage in the leasing of industrial equipment.
- *Joeeun Investment Trust Management Co., Ltd.* was established in April 1988 as a subsidiary of Citizens Investment Trust Company to provide trust account investment services.
- *Joeeun Industrial Co., Ltd.* was established in March 1993 to engage in housing construction and provide protection for potential occupants by taking over housing projects of construction companies which are insolvent. This company began liquidation proceedings on March 12, 2002.
- *Joeeun Real Estate Trust Co., Ltd.* was established in December 1996 to provide real estate brokerage service and assist small- and medium-sized construction companies by managing trusts related to the real estate industry.
- *Frontier Investment Corp.* was established in April 2000 to invest in and finance small- and medium-sized companies. On January 3, 2001, its name was changed from Pacific Venture Co., Ltd. to Frontier Investment Corp. Frontier Investment was merged into Kookmin Bank Venture Capital as of December 31, 2001.
- *Kookmin Finance Hong Kong Ltd.* was initially established in July 1995 to provide a broad range of corporate banking services.
- *Other Subsidiaries.* For the year ended December 31, 2001, we derived revenues of ₩277 billion and a net loss of ₩6.8 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

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 which began in 1987. 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, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to nine as of December 31, 2001. We expect that the merger and acquisition activity in the Korean commercial banking sector will continue, and we intend to review potential acquisition opportunities as they arise. In addition, the Korean government has indicated that it may advocate further mergers in the commercial banking sector. We cannot guarantee that we will not be involved in such a merger. 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 section entitled "Item 3. Key Information—Risk Factors—Risks relating to competition—Competition in the Korean banking industry is becoming increasingly intense, and we may experience declining margins as a result" and "—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."

Information Technology

We believe that a sophisticated information technology system is crucial in supporting our operations management and providing high quality customer service. We currently operate two wholly separate information technology systems, one for each of the former Kookmin Bank operations and the former H&CB operations. We employ approximately 730 total employees in connection with these operations. We are currently in the process of integrating these operations onto a single information technology platform, which we expect will be based on H&CB's platform but will incorporate those functionalities of the former Kookmin Bank's platform that we believe should be maintained. Our primary goal is to finish this integration as quickly as possible in order to obtain benefits from merger synergies. We expect to complete this process by September 2002. We expect that this system will be fully integrated and provide information to all headquarters, offices and branches.

We have also taken advantage of the merger to improve our disaster recovery capabilities. H&CB's system is currently backed up on a real time basis at a third party site, and the former Kookmin Bank system will be backed up by H&CB's system on a real time basis beginning in June 2002. By the end of 2002, we plan to transfer the H&CB operations to the main center and to transfer the former Kookmin Bank operations to the back-up center. In addition, following the implementation of Sysplex, which is a new information system (also known as a "multi-host system"), we will be able to increase our system capacity and to sustain our multi-host system in the event of system failures.

While we believe that this integrated system will have sufficient capacity to effectively support our current operations, we plan to continue to upgrade and improve our system by taking the following initiatives:

- developing the Next Generation Banking System, an advanced information technology 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 and researching and examining the best practices of other banks; 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.

For 2002, we have budgeted approximately ₩460 billion for our information technology systems, which include integrating the two operations onto a single platform, and for subsequent upgrades and improvements to our integrated system. We expect that implementation of the Next Generation Banking System will cost approximately US\$1 billion over the next three to four years.

PROPERTY, PLANTS AND EQUIPMENT

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

<u>Type of Facility</u>	<u>Location</u>	<u>Area (square meters)</u>	
		<u>Building</u>	<u>Site (if different)</u>
Registered office and Corporate Headquarters	9-1, 2-Ga, Namdaemun-ro, Jung-Gu, Seoul 100-703	23,084	—
Headquarters building	36-3, Yoido-dong, Youngdeungpo-Gu, Seoul 150-758	39,650	—
Headquarters building	Yoido, Seoul	33,616	—
Headquarters building	Yoido, Seoul	11,372	—
Training Institute	Ilsan	12,223	207,659
Training Institute	Daechon	7,363	4,158
Training Institute	Sokcho	14,029	15,584
Training Institute	Cheonan	39,649	196,649
IT Center (“Kookmin Bank”)	Seoul	17,270	—
IT Center (“H&CB”)	Seoul	14,231	—

As of December 31, 2001, we had a countrywide network of 1,125 branches and sub-branches, 576 of which were branded with the “Kookmin Bank” brand and 549 of which were branded with the “H&CB” brand. Approximately one-third of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong, Luxembourg and the United Kingdom and branches in Tokyo in Japan, Auckland in New Zealand and New York in United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2001 was ₩2,030 billion.

ASSETS AND LIABILITIES

The tables below set out selected financial highlights regarding our banking operations and individual assets and liabilities. Data as of or 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.

Loan Portfolio

As of December 31, 2001, our total loan portfolio was ₩120,894 billion, an increase of 103.5% from ₩59,397 billion at December 31, 2000. As of December 31, 2001, approximately 95.8% of our total loans were Won-denominated loans. The increase in the portfolio primarily reflects the impact of the merger and 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,				
	1997(1)	1998	1999	2000	2001
	(in billions of Won)				
Domestic					
Corporate					
Commercial and industrial (2)	₩13,144	₩23,699	₩24,667	₩29,795	₩ 36,113
Construction	742	1,882	1,724	2,168	4,141
Lease financing	1,227	1,327	882	592	568
Other commercial	1,073	985	1,053	1,216	1,669
Retail					
Mortgage and home equity	4,110	4,519	6,034	8,068	37,194
Other consumer	5,761	5,913	6,143	8,151	23,312
Credit cards	2,205	2,525	3,362	8,321	16,751
Total domestic	<u>28,262</u>	<u>40,850</u>	<u>43,865</u>	<u>58,311</u>	<u>119,748</u>
Foreign					
Corporate					
Commercial and industrial	1,055	1,017	1,080	1,086	1,146
Total foreign	<u>1,055</u>	<u>1,017</u>	<u>1,080</u>	<u>1,086</u>	<u>1,146</u>
Total gross loans	<u>₩29,317</u>	<u>₩41,867</u>	<u>₩44,945</u>	<u>₩59,397</u>	<u>₩120,894</u>

(1) The following table sets out the adjustments necessary to reconcile the aggregate loan balance for 1997 from Korean GAAP to a basis comparable to the later years disclosed above.

	As of December 31, 1997 (1)
	(in billions of Won)
Total loan balance under Korean GAAP	₩33,074
Add/(less) adjustments to U.S. GAAP:	
De-consolidation of trust accounts	(2,846)
Reclassification of items not classified as loans under U.S. GAAP	(911)
Total loan balance under U.S. GAAP	<u>₩29,317</u>

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

Twenty Largest Exposures by Borrower

As of December 31, 2001, our twenty largest exposures totaled ₩17,685 billion and accounted for 11.2% of our total exposures. The following table sets forth, as of December 31, 2001, our total exposures to these top twenty borrowers.

Company	Loans		Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below (1)
	Won currency	Foreign currency					
				(in billions of Won)			
Korea Deposit Insurance Corporation	—	—	—	₩ 5,552	—	₩ 5,552	—
The Bank of Korea	—	—	—	3,150	—	3,150	—
Korea Asset Management Corporation	—	—	₩ 8	1,660	—	1,668	—
The Korea Development Bank	—	—	—	963	₩ 20	983	—
Korea Electric Power Corporation	₩ 128	₩ 32	9	400	—	569	—
Incheon International Airport Corporation	—	—	—	564	—	564	—
Evergreen ABS Specialty Co.	—	—	—	448	—	448	—
SK Global	33	80	—	68	261	442	—
Hyundai Oil Refinery of Korea	28	70	—	—	334	432	—
Samsung Heavy Industries	116	8	—	—	291	415	—
Kohap	351	20	1	3	25	400	₩391
SK Corporation	29	8	1	71	287	396	—
Samsung Card	50	—	—	309	—	359	—
Korea Land Development Corporation	56	—	—	302	—	358	—
LG Electronics	209	13	—	89	40	351	—
Hyundai Merchant Marine	160	178	—	—	—	338	—
Hyundai Motor Company	22	110	1	109	94	336	—
Hanjin Shipping Co.	127	207	—	—	1	335	—
Korean Air	217	67	—	11	—	295	—
Korea Highway Corporation	—	—	6	288	—	294	—
Total	₩1,526	₩793	₩26	₩13,987	₩1,353	₩17,685	₩391

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

As of December 31, 2001, we had total exposures of ₩400 billion to Kohap, of which ₩391 billion were classified as substandard or below under the Financial Supervisory Commission's asset classification guidelines. Kohap is engaged in the production and sale of synthetic fiber and polyester. Kohap is experiencing financial difficulties primarily as a result of the impact of over-supply in the industry and the adverse financial and economic conditions in Korea and in Asia. For the years ended December 31, 1999, 2000 and 2001, Kohap incurred net losses of ₩645 billion, ₩1,267 billion and ₩791 billion, respectively. As of December 31, 2001, Kohap had accumulated carried-forward deficit of ₩3,759 billion.

On October 25, 2001, the creditors of Kohap finalized a plan to reorganize Kohap. As part of this reorganization, on December 27, 2001, the assets and liabilities associated with Kohap's chemical business were split off and transferred to a newly-incorporated company, KP Chemical. Following the asset transfer, KP Chemical had total assets of ₩1.1 trillion and total liabilities of ₩695 billion and approximately ₩170 billion of debt was transferred to KP Chemical. The remaining debt of Kohap has been written off and the remaining assets and liabilities in Kohap will be liquidated sometime in 2002.

As of December 31, 2001, our allowance against our loans and guarantees to Kohap was ₩232 billion, or 59.3% of the aggregate principal amount of our loans and guarantees to Kohap.

Exposure to Chaebols

As of December 31, 2001, 6.6% of our total exposure was to the thirty largest chaebols in Korea. The following table shows, as of December 31, 2001, our total exposures to the ten chaebol groups to which we have the largest exposure.

Chaebol	Loans		Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below (1)
	Won currency	Foreign currency					
	(in billions of Won)						
Samsung	₩ 485	₩ 56	₩ 27	₩ 623	₩ 368	₩1,559	—
SK	381	202	45	223	555	1,406	—
LG	548	87	6	266	150	1,057	—
Hyundai Motors (2)	259	230	1	270	284	1,044	—
Hanjin	436	283	—	—	7	726	—
Hyundai	188	258	127	—	110	683	—
Hyundai Oil (2)	30	70	—	—	334	434	—
Kohap	351	20	1	3	25	400	₩391
Hanhwa	219	2	44	44	67	376	—
Dong Bu	199	44	30	—	95	368	—
Total	<u>₩3,096</u>	<u>₩1,252</u>	<u>₩281</u>	<u>₩1,429</u>	<u>₩1,995</u>	<u>₩8,053</u>	<u>₩391</u>

- (1) Classification is based primarily on the Financial Supervisory Commission's asset classification criteria.
- (2) Pursuant to the disaffiliation of Hyundai Motors and Hyundai Oil from the Hyundai Group, these companies and their affiliates are classified as separate chaebols.

The following table shows information relating to our top ten exposures to former Daewoo Group companies as of December 31, 2001.

Company	Loans		Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below (1)
	Won currency	Foreign currency					
(in billions of Won)							
Ssangyong Motor Company	₩109	₩ 22	—	—	₩14	₩145	₩131
Daewoo Electronics Co.	33	82	₩19	—	—	134	114
Daewoo Motor Co.	35	23	—	—	—	58	58
Daewoo Securities Co.	3	—	31	—	14	48	—
Daewoo Shipbuilding & Marine Engineering Co.	—	—	4	—	38	42	—
Daewoo Corporation	1	4	—	₩6	22	33	23
Daewoo Engineering & Construction Co.	27	—	5	—	—	32	—
Daewoo Telecom	13	—	—	3	—	16	13
Daewoo Heavy Industry & Machinery Co.	7	5	4	—	—	16	—
Daewoo International Corporation	4	—	1	—	1	6	5
Total	<u>₩232</u>	<u>₩136</u>	<u>₩64</u>	<u>₩9</u>	<u>₩89</u>	<u>₩530</u>	<u>₩344</u>

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

In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries and Daewoo Telecom. Currently, these companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2001, our top ten exposures to the companies of the former Daewoo Group totalled approximately ₩530 billion, of which 64.9% was classified as substandard or below. This exposure consisted of ₩368 billion in loans outstanding, ₩9 billion in corporate bonds and ₩89 billion in guarantees and acceptances. See "Item 3. Key Information—Risk Factors—Risks relating to our corporate credit 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."

The following table shows information relating to our total exposure to current and certain former Hyundai Group companies as of December 31, 2001. While certain of these companies were disaffiliated from the Hyundai Group in September 2000 following approval from the Korean Fair Trade Commission, for certain internal purposes, we continued to monitor these companies as a unified Hyundai Group as of December 31, 2001.

Company	Loans		Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as substandard or below (1)
	Won currency	Foreign currency					
Hyundai Oil Co.	₩ 28	₩ 70	—	—	₩334	₩ 432	—
Hyundai Motor Company	22	110	₩ 1	₩113	95	341	—
Hyundai Merchant Marine Co.	160	178	—	—	—	338	—
Hyundai Engineering & Construction Co. ...	29	—	102	71	73	275	—
Hyundai Capital Service Inc.	85	—	—	141	—	226	—
Hyundai Petrochemical Co.	141	—	20	7	17	185	—
Hynix Semiconductor ..	—	—	—	150	—	150	—
Kia Motors Corporation	14	79	29	3	22	147	—
INI Steel Company	51	10	10	—	66	137	—
Hyundai Corporation ..	—	77	—	—	33	110	—
Hyundai Heavy Industries Co.	14	1	1	—	77	93	—
Total	<u>₩544</u>	<u>₩525</u>	<u>₩163</u>	<u>₩485</u>	<u>₩717</u>	<u>₩2,434</u>	<u>—</u>

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

Recently, a number of former Hyundai Group companies, including Hynix Semiconductor, Hyundai Merchant Marine and Hyundai Petrochemical, have been experiencing financial difficulties as a result of, among other things, their liquidity positions. See "Item 3. Key Information—Risk Factors—Risks relating to our corporate credit portfolio—We have exposure to the largest Korean commercial conglomerates, known as "chaebols," and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us."

Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2001.

Industry	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Manufacturing	₩17,705	40.5%
Retail and wholesale	6,727	15.4
Hotel, leisure or transportation	4,330	9.9
Government and government agencies	334	0.8
Construction	4,141	9.5
Finance and insurance	1,293	3.0
Other	9,107	20.9
Total	<u>₩43,637</u>	<u>100.0%</u>

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2001.

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Commercial and industrial loans		
Up to ₩10 million	₩ 345	0.29%
Over ₩10 million to ₩50 million	3,499	2.89
Over ₩50 million to ₩100 million	2,891	2.39
Over ₩100 million to ₩500 million	9,689	8.01
Over ₩500 million to ₩1 billion	4,493	3.72
Over ₩1 billion to ₩5 billion	5,366	4.44
Over ₩5 billion to ₩10 billion	2,269	1.88
Over ₩10 billion to ₩50 billion	5,870	4.85
Over ₩50 billion to ₩100 billion	1,272	1.05
Over ₩100 billion	419	0.35
Sub-total	<u>36,113</u>	<u>29.87</u>
Construction loans		
Up to ₩10 million	8	0.01
Over ₩10 million to ₩50 million	164	0.14
Over ₩50 million to ₩100 million	237	0.20
Over ₩100 million to ₩500 million	890	0.74
Over ₩500 million to ₩1 billion	464	0.38
Over ₩1 billion to ₩5 billion	929	0.77
Over ₩5 billion to ₩10 billion	282	0.23
Over ₩10 billion to ₩50 billion	1,030	0.85
Over ₩50 billion to ₩100 billion	137	0.11
Sub-total	<u>4,141</u>	<u>3.43</u>
Lease financing		
Up to ₩10 million	0	0.00
Over ₩10 million to ₩50 million	4	0.00
Over ₩50 million to ₩100 million	7	0.01
Over ₩100 million to ₩500 million	40	0.03
Over ₩500 million to ₩1 billion	27	0.02
Over ₩1 billion to ₩5 billion	215	0.18
Over ₩5 billion to ₩10 billion	105	0.09
Over ₩10 billion to ₩50 billion	170	0.14
Sub-total	<u>568</u>	<u>0.47</u>
Other corporate loans		
Up to ₩10 million	40	0.03
Over ₩10 million to ₩50 million	180	0.15
Over ₩50 million to ₩100 million	158	0.13
Over ₩100 million to ₩500 million	465	0.38
Over ₩500 million to ₩1 billion	140	0.12

	<u>Aggregate loan balance</u> (in billions of Won)	<u>Percentage of total loan balance</u>
Other corporate loans (continued)		
Over ₩1 billion to ₩5 billion	₩ 247	0.20%
Over ₩5 billion to ₩10 billion	60	0.05
Over ₩10 billion to ₩50 billion	191	0.16
Over ₩50 billion to ₩100 billion	—	0.00
Over ₩100 billion	188	0.16
Sub-total	<u>1,669</u>	<u>1.38</u>
Credit cards		
Up to ₩10 million	16,152	13.36
Over ₩10 million to ₩50 million	599	0.50
Sub-total	<u>16,751</u>	<u>13.86</u>
Mortgage and home equity loans		
Up to ₩10 million	4,707	3.89
Over ₩10 million to ₩50 million	18,952	15.68
Over ₩50 million to ₩100 million	8,408	6.96
Over ₩100 million to ₩500 million	4,877	4.04
Over ₩500 million to ₩1 billion	232	0.19
Over ₩1 billion to ₩5 billion	18	0.01
Sub-total	<u>37,194</u>	<u>30.77</u>
Other consumer loans		
Up to ₩10 million	10,593	8.76
Over ₩10 million to ₩50 million	8,369	6.92
Over ₩50 million to ₩100 million	1,156	0.96
Over ₩100 million to ₩500 million	2,288	1.89
Over ₩500 million to ₩1 billion	624	0.52
Over ₩1 billion to ₩5 billion	247	0.20
Over ₩5 billion to ₩10 billion	24	0.02
Over ₩10 billion to ₩50 billion	11	0.01
Sub-total	<u>23,312</u>	<u>19.28</u>
Foreign commercial and industrial loans		
Up to ₩10 million	—	0.00
Over ₩10 million to ₩50 million	4	0.00
Over ₩50 million to ₩100 million	5	0.00
Over ₩100 million to ₩500 million	74	0.06
Over ₩500 million to ₩1 billion	32	0.03
Over ₩1 billion to ₩5 billion	430	0.36
Over ₩5 billion to ₩10 billion	198	0.16
Over ₩10 billion to ₩50 billion	272	0.22
Over ₩50 billion to ₩100 billion	131	0.11
Sub-total	<u>1,146</u>	<u>0.94</u>
Total	<u>₩120,894</u>	<u>100.0%</u>

Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2001. The amounts disclosed are before deduction of allowance for loan losses.

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

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in billions of Won)			
Domestic				
Corporate				
Commercial and industrial	₩25,987	₩ 7,377	₩ 2,749	₩ 36,113
Construction	3,478	641	22	4,141
Lease financing	169	243	156	568
Other commercial	1,455	—	214	1,669
Total-corporate	<u>31,089</u>	<u>8,261</u>	<u>3,141</u>	<u>42,491</u>
Retail				
Mortgage and home equity	8,673	21,919	6,602	37,194
Other consumer	13,190	9,254	868	23,312
Total retail	<u>21,863</u>	<u>31,173</u>	<u>7,470</u>	<u>60,506</u>
Credit cards	16,667	84	0	16,751
Total domestic	<u>69,619</u>	<u>39,518</u>	<u>10,611</u>	<u>119,748</u>
Foreign				
Corporate				
Commercial and industrial	558	411	177	1,146
Total foreign	<u>558</u>	<u>411</u>	<u>177</u>	<u>1,146</u>
Total gross loans	<u>₩70,177</u>	<u>₩39,929</u>	<u>₩10,788</u>	<u>₩120,894</u>

Interest Rate Sensitivity

The following table shows, as of December 31, 2001, the total amount of loans which have fixed interest rates and variable or adjustable interest rates.

	(in billions of Won)
Fixed rate (1)	₩ 29,348
Variable or adjustable rates (2)	91,546
Total gross loans	<u>₩120,894</u>

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

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

For additional information regarding our management of interest rate risk, see “—Risk Management—Market Risk Management for Non-Trading Activities.”

Credit Exposures to Companies in Workout, Corporate Reorganization and Composition

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. In 1998, we joined the other financial institutions in Korea in entering into an accord which sets forth certain guidelines and procedures with respect to voluntary workout programs. Under the accord, a borrower, its lead creditor bank or financial institution creditors holding more than 25.0% of the total credit amount of a borrower held by the participants of the accord could convene a meeting of creditors for workout and commence preparation of a workout plan with respect to that borrower. The workout plan was binding on all the financial institution creditors that entered into the accord upon approval by the accord participants representing at least 75.0% of the total accord debt. The accord also imposed penalties on financial institution creditors that failed to abide by the guidelines and procedures set forth in the accord.

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

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

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

A significant portion of loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2001, ₩2,360 billion or 1.6% of our total loans and debt securities were in workout or restructuring, including ₩1,852 billion of loans to and debt securities of large corporate borrowers and ₩508 billion of loans to and debt securities of small- and medium-sized enterprises, which represented 78.5% and 21.5% of our loans to and debt securities of such customers and 1.3% and 0.3% of our total loans and debt securities, respectively.

The following table shows, as of December 31, 2001, our ten largest exposures that were in workout, restructuring, composition or under court receivership.

<u>Company</u>	<u>Won currency</u>	<u>Foreign currency</u>	<u>Equity securities</u>	<u>Debt securities</u>	<u>Guarantees and acceptances</u>	<u>Total exposures</u>	<u>Amounts classified as substandard or below (1)</u>
	(in billions of Won)						
Kohap	₩ 351	₩ 20	₩1	₩3	₩25	₩ 400	₩ 391
Kabool	169	—	—	—	—	169	169
Ssangyong Motor Company	107	22	—	—	14	143	140
Korea Non-Bank Lease Financing Co.	76	37	2	—	—	115	113
Woobang	104	—	—	—	—	104	104
Ssangyong Cement Industrial Co.	75	—	—	6	4	85	74
New Core Co.	72	—	—	—	—	72	72
Hwasung Industrial Co.	59	—	—	—	—	59	—
Dongkook Corporation	52	—	—	—	4	56	49
Daeah Passenger Company	4	47	—	—	—	51	—
Total	<u>₩1,069</u>	<u>₩126</u>	<u>₩3</u>	<u>₩9</u>	<u>₩47</u>	<u>₩1,254</u>	<u>₩1,112</u>

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

Provisioning Policy

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

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

We consider the following corporate loans to be impaired loans:

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

- loans that are over 30 days past due;
- loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and
- loans which are “troubled debt restructurings” as defined under U.S. GAAP.

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

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

	<u>As of December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(percentages)		
Normal	3.4%	3.4%	3.4%
Precautionary	14.2	6.2	14.2
Substandard	36.7	26.6	29.4
Doubtful	73.1	75.3	78.6
Estimated loss	95.9	86.7	93.5

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

For leases, we establish allowances based on a historical loss analysis adjusted for specific circumstances related to individual borrowers of the leased assets and the potential limited resale market for the leased asset.

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

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

Loan Aging Schedule

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

As of December 31,	Normal Amount	%	Amount past due 1-3 months		Amount past due 3-6 months		Amount past due more than 6 months		Total Amount
			(in billions of Won, except percentages)	%	(in billions of Won, except percentages)	%	(in billions of Won, except percentages)	%	
1999	₩41,823	93.1	₩918	2.0	₩968	2.2	₩1,236	2.8	₩44,945
2000	55,992	94.3	1,579	2.7	1,016	1.7	810	1.4	59,397
2001	113,778	94.1	3,740	3.1	961	0.8	2,415	2.0	120,894

Non-Accrual Loans and Past Due Accruing Loans

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

Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2001, we would have recorded gross interest income of ₩1,182 billion compared to ₩549 billion for the year ended December 31, 2000 and ₩687 billion for the year ended December 31, 1999 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 1999, 2000 and 2001 was ₩368 billion, ₩296 billion and ₩525 billion, respectively.

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

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

	As of December 31,		
	1999	2000	2001
	(in billions of Won)		
Loans accounted for on a non-accrual basis			
Corporate	₩2,852	₩2,414	₩ 3,976
Consumer	1,405	1,734	4,691
Sub-total	4,257	4,148	8,667
Accruing loans which are contractually past due one day or more as to principal or interest (1)			
Corporate	74	68	106
Consumer	—	—	1,471(2)
Sub-total	74	68	1,577
Total	₩4,331	₩4,216	₩10,244

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of ₩30 billion of corporate loans, ₩10 billion of corporate loans and ₩27 billion of corporate loans as of December 31, 1999, 2000 and 2001, respectively.

(2) Consists of home equity guarantees for H&CB-originated loans.

Troubled Debt Restructurings

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

	As of December 31,		
	1999	2000	2001
	(in billions of Won)		
Loans which are classified as “troubled debt restructurings”	₩3,385	₩2,691	₩2,206

For 2001, interest income that would have been recorded under the original contract terms of restructured loans amounted to ₩335 billion, out of which ₩231 billion was reflected as interest income during 2001.

Potential Problem Loans

As of December 31, 2001, we had ₩1,661 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These amounts were classified as impaired and therefore included in our calculation of loan loss allowance under U.S. GAAP.

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2001, we had debt securities with an amortized cost of ₩173 billion and a market value of ₩174 billion on which interest was past due.

Non-Performing Loans

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

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

	As of December 31,		
	1999	2000	2001
	(in billions of Won, except percentages)		
Total non-performing loans	₩2,134	₩1,762	₩3,376
As a percentage of total loans	4.7%	3.0%	2.8%

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

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

Analysis of Non-Performing Loans

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

	As of December 31,					
	1999		2000		2001	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	₩1,496	70.1%	₩1,160	65.8%	₩1,487	44.0%
Construction	61	2.8	142	8.0	402	11.9
Lease financing	123	5.8	116	6.6	20	0.6
Other corporate	55	2.6	17	1.0	89	2.6
Total corporate	<u>1,735</u>	<u>81.3</u>	<u>1,435</u>	<u>81.4</u>	<u>1,998</u>	<u>59.1</u>
Retail						
Mortgage and home equity	103	4.8	86	4.9	614	18.2
Other consumer	103	4.8	80	4.5	432	12.8
Total retail	<u>206</u>	<u>9.6</u>	<u>166</u>	<u>9.4</u>	<u>1,046</u>	<u>31.0</u>
Credit cards	93	4.4	98	5.6	218	6.5
Total domestic	<u>2,034</u>	<u>95.3</u>	<u>1,699</u>	<u>96.4</u>	<u>3,262</u>	<u>96.6</u>
Foreign						
Corporate						
Commercial and industrial	100	4.7	63	3.6	114	3.4
Total foreign	<u>100</u>	<u>4.7</u>	<u>63</u>	<u>3.6</u>	<u>114</u>	<u>3.4</u>
Total non-performing loans	<u>₩2,134</u>	<u>100.0%</u>	<u>₩1,762</u>	<u>100.0%</u>	<u>₩3,376</u>	<u>100.0%</u>

Top Twenty Non-Performing Loans

As of December 31, 2001, our twenty largest non-performing loans accounted for 9.2% of our total non-performing loan portfolio. The following table shows, as of December 31, 2001, certain information regarding our twenty largest non-performing loans.

	<u>Industry</u>	<u>Gross principal outstanding</u>	<u>Allowance for loan losses</u>
		(in billions of Won)	
Borrower A	Construction	₩ 68	₩ 24
Borrower B	Manufacturing	27	26
Borrower C	Manufacturing	26	25
Borrower D	Manufacturing	21	21
Borrower E	Manufacturing	20	14
Borrower F	Construction	14	14
Borrower G	Manufacturing	14	14
Borrower H	Finance	13	13
Borrower I	Manufacturing	13	12
Borrower J	Finance	11	5
Borrower K	Manufacturing	11	11
Borrower L	Construction	10	7
Borrower M	Hotel, Leisure	9	0
Borrower N	Construction	9	9
Borrower O	Finance	9	2
Borrower P	Manufacturing	8	8
Borrower Q	Construction	8	8
Borrower R	Construction	7	4
Borrower S	Retail, wholesale	7	0
Borrower T	Construction	7	2
Total		<u>₩312</u>	<u>₩219</u>

Non-Performing Loan Strategy

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

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

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

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

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

In addition, we use the services of a loan collection agency called Joeun Credit Information Co., Ltd. of which we own 50% of the outstanding share capital and whose employees own the remaining share capital. Joeun Credit Information Co., Ltd. receives payments from recoveries made on charged-off loans and loans that are overdue for over six months (three months in the case of credit card loans). Joeun Credit Information Co., Ltd. has over 300 employees, including loan recovery experts, legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. Including amounts recovered prior to the merger, it recovered ₩119 billion in 2001 compared to ₩165 billion in 2000.

Methods for resolving non-performing loans include the following:

- For loans in arrears for more than three months but less than six months and for loans to bankrupt companies:
 - non-performing loans are transferred from the operating branch or call center to the non-performing loan management team in the processing centers;
 - a demand note is dispatched by mail if payment is five months past due;
 - calls and visits are made by our processing center staff to customers encouraging them to make payments;
 - borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans;
 - prepare for judicial means, including foreclosure and auction of the collateral; and
 - credit card loans are transferred to Joeun Credit Information Co. Ltd. for collection.
- For loans in arrears for more than six months but less than one year and for loans to bankrupt companies over three months after bankruptcy:
 - for mortgage loans other than individual housing loans, foreclosure and auction proceedings are commenced;
 - for unsecured loans other than credit card loans, the loans are transferred to Joeun Credit Information Co. Ltd. for collection; and
 - borrowers who are past due on payments of interest and principal are registered on the Korea Federation of Banks' database of non-performing loans.
- For loans in arrears for over one year:
 - for individual housing loans, foreclosure and auction proceeding are commenced;
 - in the case of unsecured loans, the loans are treated as loan losses; and
 - charged off loans are given to Joeun Credit Information Co., Ltd. for collection, except for loans where the cost of collection exceeds the possible recovery or where the statute of limitations for collection has expired.

In order to promote speedy recovery on loans subject to foreclosures and litigation, our policy is to permit the branch responsible for handling these loans to transfer them to our Loan Management Team, to one of the regional headquarters, to another branch located closer to the courts handling the matter or to Joeun Credit Information Co., Ltd.

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

- selling our non-performing loans to third parties including the Korea Asset Management Corporation; and
- entering into asset securitization transactions with respect to our non-performing loans.

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

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

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

- the underlying documentation of the loan is incomplete;
- there is a flaw in the perfection of any security interest underlying the loan; or
- certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to the Korea Asset Management Corporation if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of the Korea Asset Management Corporation to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2001, the aggregate principal amount of loans sold (including those loans sold by both the former Kookmin Bank and H&CB) that are subject to such repurchase rights was ₩59.6 billion. At December 31, 2001, we recorded a liability of ₩7.2 billion relating to those loans, representing our estimated obligation to make repurchases under the put option.

Allocation of Allowance for Loan Losses

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

	As of December 31,					
	1999		2000		2001	
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	₩1,813	69.2%	₩1,474	61.5%	₩1,830	52.2%
Construction	135	5.1	174	7.3	312	8.9
Lease financing	82	3.1	97	4.1	122	3.5
Other corporate	116	4.4	108	4.5	169	4.8
Total corporate	<u>2,146</u>	<u>81.8</u>	<u>1,853</u>	<u>77.4</u>	<u>2,433</u>	<u>69.4</u>
Retail						
Mortgage and home equity	77	2.9	86	3.6	93	2.7
Other consumer	134	5.2	146	6.1	236	6.7
Total retail	<u>211</u>	<u>8.1</u>	<u>232</u>	<u>9.7</u>	<u>329</u>	<u>9.4</u>
Credit cards	43	1.6	115	4.8	614	17.5
Foreign (1)	<u>223</u>	<u>8.5</u>	<u>194</u>	<u>8.1</u>	<u>132</u>	<u>3.7</u>
Total allowance for loan losses	<u>₩2,623</u>	<u>100.0%</u>	<u>₩2,394</u>	<u>100.0%</u>	<u>₩3,508</u>	<u>100.0%</u>

(1) Consists of loans to corporations.

Our total allowance for loan losses was ₩2,623 billion as of December 31, 1999. During 2000, the allowance for loan losses decreased by ₩229 billion, or 8.7%, to ₩2,394 billion as of December 31, 2000. During 2001, the allowance for loan losses increased by ₩1,114 billion, or 46.5%, to ₩3,508 billion as of December 31, 2001. As of December 31, 1999, 2000 and 2001, 90.3%, 85.5% and 73.1% of our total allowance for loan losses, respectively, were in respect of our corporate loan portfolio (including all foreign loans), which reflects our assessment of the financial difficulties experienced by our corporate borrowers in connection with the economic problems in Korea which began in mid-1997.

Our allowance for corporate loan losses decreased by ₩322 billion, or 13.6%, from ₩2,369 billion to ₩2,047 billion as of December 31, 1999 and 2000, respectively. This change was the result of two counter effects. The first was an increase in the specific allowance related to eight loans that became impaired during 2000 and the second is the improved performance of much of the rest of our corporate loan portfolio. As of December 31, 2000, the aggregate outstanding balances and specific allowances for the eight loans mentioned above amounted to ₩1,024 billion and ₩189 billion, respectively. Despite these large additions to impaired corporate loans and an increase in the outstanding balance of corporate loans from ₩29,406 billion to ₩34,856 billion, the overall level of impaired corporate loans decreased by ₩584 billion from ₩6,111 billion to ₩5,527 billion as of December 31, 1999 and 2000, respectively. This decrease, combined with a reduction in the proportion of loans rated substandard or below to total corporate loans from 15.5% to 13.0%, contributed to a reduction of ₩350 billion in total charge-offs in 2000 relative to 1999. These lower charge-offs, and the resulting reduction in the allowance for corporate loan losses, reflected the sustained improvement in the Korean economy through 2000.

The allowance for corporate loan losses increased by ₩518 billion, or 25.3%, from ₩2,047 billion as of December 31, 2000 to ₩2,565 billion as of December 31, 2001. The level of allowance for loan losses increased as we increased our allowance for existing impaired loans due to our assessment of further deterioration in the financial condition of the relevant borrowers. The level of allowances for corporate loans increased despite the charge-off of corporate loans to several large corporate borrowers in 2001, including Hynix Semiconductor and former member companies of the Daewoo Group resulting from further deterioration in the financial condition of these borrowers.

In the consumer sector, our allowance for loan losses increased 36.6% from ₩254 billion as of December 31, 1999 to ₩347 billion as of December 31, 2000 primarily as a result of increased lending volume. The allowance for loan losses increased 171.8% from ₩347 billion as of December 31, 2000 to ₩943 billion as of December 31, 2001. The level of allowance for loan losses for consumer loans increased due to the increase in the size of our portfolio, principally as a result of the merger with H&CB and increased credit card balances. However, the level of allowance for loan losses as a percentage of total consumer loans decreased from 1.41% as of December 31, 2000 to 1.22% as of December 31, 2001, principally as a result of the merger, which increased the percentage of our consumer loans that are mortgage or home equity loans. The relatively low level of allowances for the portion of our consumer loan portfolio acquired from H&CB reflects lower historical levels of losses. Due to the volume of the consumer loans acquired, this had the effect of reducing the relative loan loss allowance levels for our consumer portfolio as of December 31, 2001 as compared to December 31, 2000.

Analysis of Allowance for Loan Losses

The following table presents an analysis of our loan loss experience for each of the years indicated.

	Year ended December 31,		
	1999	2000	2001
	(in billions of Won, except percentages)		
Balance at the beginning of the period	₩ 2,576	₩2,623	₩ 2,394
Amounts charged against income	1,010	262	1,264
Allowance relating to loans repurchased from the Korea Asset Management Corporation	67	26	8
Allowance relating to loans acquired in the merger with H&CB	—	—	1,279
Gross charge-offs			
Domestic:			
Corporate			
Commercial and industrial	530	372	690
Construction	55	39	22
Lease financing	109	82	80
Other corporate	38	56	175
Retail			
Mortgage and home equity	34	7	7
Other consumer	125	53	179
Credit cards	73	54	394
Foreign	116	67	98
Total gross charge-offs	(1,080)	(730)	(1,645)
Recoveries:			
Domestic:			
Corporate			
Commercial and industrial	18	117	74
Construction	2	8	4
Lease financing	—	—	—
Other corporate	—	2	3
Retail			
Mortgage and home equity	4	26	16
Other consumer	3	11	26
Credit cards	22	47	81
Foreign	1	2	4
Total recoveries	50	213	208
Net charge-offs	(1,030)	(517)	(1,437)
Balance at the end of the period	₩ 2,623	₩2,394	₩ 3,508
Ratio of net charge-offs during the period to average loans outstanding during the period	2.4%	1.0%	2.0%

Loan Charge-Offs

Basic Principles

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

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

Loans To Be Charged Off

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

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards which have been overdue for more than six months;
- payments outstanding on unsecured consumer loans which have been overdue for more than six months; or
- the portion of loans classified as “estimated loss,” net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval

An application for charge-off must be submitted by a branch to our Loan Management Team promptly and in any event within one month, after the loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, we must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, we refer the approval of the charge-off by the Loan Management Team to our Audit & Examination Department for their review of compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Upon approval by the Financial Supervisory Service, we must get approval from senior executive management to charge off those loans.

Treatment of Loans Charged Off

Once loans are charged off, we classify them as charged-off loans. These loans are managed based on a different set of procedures. We continue our collection efforts in respect of these loans, including through our subsidiary, Joeun Credit Information Co., Ltd.

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

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

Investment Portfolio

Investment Policy

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

- maintain the stability and diversification of our assets;
- maintain adequate sources of back-up liquidity to match our funding requirements; and
- supplement income from our core lending activities.

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

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

The following table sets out the definitions of the three categories of investments held by us:

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

Book Value and Market Value

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

	As of December 31,					
	1999		2000		2001	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
	(in billions of Won)					
Available-for-sale securities						
Equity securities	₩565	₩565	₩1,563	₩1,563	₩3,552	₩3,552
Debt securities						
Korean treasury securities and government agency securities	3,744	3,744	3,536	3,536	3,675	3,675
Debt securities issued by financial institutions	2,056	2,056	1,549	1,549	2,190	2,190
Corporate debt securities	1,055	1,055	1,363	1,363	2,620	2,620
Debt securities issued by foreign governments	37	37	32	32	29	29
Mortgage-backed securities and asset-backed securities	—	—	157	157	258	258
Other debt securities	710	710	81	81	—	—
Total—Available-for-sale	<u>8,167</u>	<u>8,167</u>	<u>8,281</u>	<u>8,281</u>	<u>12,324</u>	<u>12,324</u>
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	3,377	3,386	4,856	5,116	8,915	9,162
Debt securities issued by financial institutions	2,813	2,812	2,754	2,764	1,712	1,720
Corporate debt securities	434	435	529	544	655	671
Debt securities issued by foreign governments	188	204	99	101	53	52
Mortgage-backed securities and asset-backed securities	20	20	766	776	1,890	1,910
Bond Market Stabilization Fund	928	947	—	—	—	—
Other debt securities	5	5	1	1	—	—
Total—Held-to-maturity	<u>7,765</u>	<u>7,809</u>	<u>9,005</u>	<u>9,302</u>	<u>13,225</u>	<u>13,515</u>
Trading securities						
Equity securities	1,393	1,393	149	149	4,193	4,193
Debt securities						
Korean treasury securities and government agency securities	1,021	1,021	1,755	1,755	1,229	1,229
Debt securities issued by financial institutions	734	734	537	537	910	910
Corporate debt securities	152	152	155	155	175	175
Debt securities issued by foreign governments	9	9	—	—	—	—
Other debt trading securities	10	10	—	—	—	—
Total—Trading	<u>3,319</u>	<u>3,319</u>	<u>2,596</u>	<u>2,596</u>	<u>6,507</u>	<u>6,507</u>
Total securities	<u>₩19,251</u>	<u>₩19,295</u>	<u>₩19,881</u>	<u>₩20,178</u>	<u>₩32,056</u>	<u>₩32,346</u>

Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2001.

As of December 31, 2001												
	Within 1 year	Weighted average yield (1)	Over 1 but within 5 years	Weighted average yield (1)	Over 5 but within 10 years	Weighted average yield (1)	Over 10 years	Weighted average yield (1)	Securities not due at a single maturity	Weighted average yield (1)	Total	Weighted average yield (1)
(in billions of Won, except percentages)												
Available-for-sale securities												
Korean treasury securities and government agency	₩ 464	8.74%	₩3,141	7.00%	₩ 38	7.46%	—	—	₩32	10.14%	₩ 3,675	7.25%
Debt securities issued by financial institutions	1,178	6.30	937	6.23	62	7.64	₩13	4.59%	—	—	2,190	6.30
Corporate debt securities	884	5.39	1,685	6.91	37	6.38	14	6.75	—	—	2,620	6.39
Debt securities issued by foreign governments	—	—	6	10.38	23	7.87	—	—	—	—	29	8.33
Mortgage-backed securities and asset-backed securities	136	11.93	93	16.03	29	17.97	—	—	—	—	258	15.13
Other debt securities	—	—	—	—	—	—	—	—	—	—	—	—
Total	₩2,662	6.71%	₩5,862	7.44%	₩189	9.16%	₩27	5.83%	₩32	10.14%	₩ 8,772	7.26%
Held-to-maturity securities												
Korean treasury securities and government agencies	₩1,138	7.45%	₩7,649	7.31%	₩118	6.94%	—	—	₩10	14.96%	₩ 8,915	7.33%
Debt securities issued by financial institutions	1,478	5.26	226	6.49	8	7.42	—	—	—	—	1,712	5.44
Corporate debt securities	420	6.41	196	6.65	37	5.40	₩ 2	0.34%	—	—	655	6.36
Debt securities issued by foreign governments	16	5.93	37	6.19	—	—	—	—	—	—	53	6.10
Mortgage-backed securities and asset-backed securities	784	6.57	1,106	6.81	—	—	—	—	—	—	1,890	6.71
Other debt securities (2)	—	—	—	—	—	—	—	—	—	—	—	—
Total	₩3,836	6.31%	₩9,214	7.21%	₩163	6.48%	₩ 2	0.34%	₩10	14.96%	₩13,225	6.94%
Trading securities												
Korean treasury securities and government agencies	₩ 56	4.57%	₩ 915	6.29%	₩258	4.77%	—	—	—	—	₩ 1,229	5.89%
Debt securities issued by financial institutions	295	5.53	615	5.62	—	—	—	—	—	—	910	5.59
Corporate debt securities	44	4.82	131	5.83	—	—	—	—	—	—	175	5.57
Total	₩ 395	5.32%	₩1,661	6.01%	₩258	4.77%	—	—	—	—	₩ 2,314	5.75%

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

(2) Other debt securities represent beneficiary certificates issued by other financial institutions.

Concentrations of Risk

As of December 31, 2001, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders' equity at such date, which was ₩7,635 billion.

	<u>Book Value</u>	<u>Market Value</u>
	(in billions of Won)	
Name of issuer:		
Korean Government	₩ 4,463	₩ 4,529
Korea Deposit Insurance Corporation	5,553	5,685
Bank of Korea	3,150	3,151
Korea Asset Management Corporation	1,660	1,688
The Korea Development Bank	963	971
Total	<u>₩15,789</u>	<u>₩16,024</u>

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

Bond Market Stabilization Fund

On September 21, 1999, at the request of the Korean government, 40 Korean financial institutions established the Bond Market Stabilization Fund to stabilize the market prices of debt securities and interest rates in Korea through, among other means, open market purchases and sales of debt securities. On March 27, 2000, the government elected to dissolve the Bond Market Stabilization Fund in advance of its scheduled maturity.

On dissolution of the Bond Market Stabilization Fund, securities with an aggregate fair value of approximately ₩26.6 trillion previously held by the Bond Market Stabilization Fund were sold to participants, and the remaining portion of the securities were transferred to two trusts, which we refer to as the "Trusts". The securities consisted of national and local government bonds, financial debentures issued by government-invested corporations and corporate bonds. We own the entire beneficial interest in the first trust, known as "Trust I", while we own 8.45% of the beneficial interest in the second trust, known as "Trust II", which is owned by 38 participating financial institutions. The securities transferred by the Bond Market Stabilization Fund to Trust I and Trust II had a fair value as of the dissolution date of ₩23.6 billion and ₩273.4 billion, respectively.

As part of the dissolution agreement, the participating financial institutions agreed that any securities in respect of which losses are experienced by the participants can be sold back to the Trusts at the fair value based on the expected yield on such securities on the dissolution date. As a result, any losses experienced by the participants would be shared with the other participating financial institutions based on their participation percentage in the Trusts.

During 2001, under the approval of the Money Trust Committee, the Trusts repurchased securities issued by Hyundai Engineering & Construction Co., Ltd. with a total fair value of ₩163.3 billion as of December 31, 2001. As of December 31, 2001, the fair value of the assets of Trust I and Trust II was approximately ₩20 billion and ₩223.7 billion, respectively. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts. We do not believe additional losses resulting from the repurchase of securities would exceed the assets of the Trusts.

We manage Trust II, and a third party manages Trust I. We consolidate Trust I and, with respect to the securities held by Trust II, we include in our securities portfolio our pro rata share of such securities.

Credit-Related Commitments

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

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

	As of December 31,		
	1999	2000	2001
	(in billions of Won)		
Guarantees	₩ 998	₩ 979	₩ 1,128
Commercial letters of credit	1,031	1,017	1,328
Unused lines of credit:			
Commercial (1)	6,130	12,052	23,408
Consumer (2)	19,245	41,419	80,766
Commitments to extend credit:			
Original term to maturity of more than one year	71	—	—
Interest rate swaps (unrealized gain)	3	2	—
Cross currency swaps (unrealized gain)	0.6	0.3	—

(1) The merger played a major role in an increase of overall credit-related commitments. The increase in commercial unused lines of credit as of December 31, 2001 was primarily due to an increase in unused lines of credit for general loans and liquidity support for asset securitization vehicles. The unused line of credit for general loans was ₩1,230 billion, ₩4,129 billion and ₩5,596 billion as of December 31, 1999, 2000, and 2001, respectively. Liquidity for asset securitization vehicles was ₩267 billion, ₩2,667 billion and ₩7,434 billion as of December 31, 1999, 2000, and 2001, respectively.

(2) Of this amount, ₩15,795 billion, ₩36,392 billion and ₩73,798 billion as of December 31, 1999, 2000 and 2001, respectively, relate to the unused card limits on credit cards that may be cancelled by us at any time.

Funding

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

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 67.3% of total funding as of December 31, 1999, 70.7% of our total funding as of December 31, 2000 and 76.3% of our total funding as of December 31, 2001.

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

The aggregate amount of contractual maturities of all long-term debt at December 31, 2001 was as follows:

	(in billions of Won)
Due in 2002	₩ 3,973
Due in 2003	5,169
Due in 2004	2,581
Due in 2005	1,127
Due in 2006	1,808
Thereafter	1,987
Gross long-term debt	16,645
Less: Discount	(19)
Total long-term debt, net	<u>₩16,626</u>

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

Deposits

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

	1999		2000		2001	
	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	₩ 1,568	—	₩ 1,677	—	₩ 1,871	—
Interest-bearing	307	2.28%	345	2.32%	499	1.60%
Time deposits:						
Certificates	778	6.68	1,878	6.87	2,023	6.08
Other time deposits	21,493	8.66	26,660	7.69	33,231	7.21
Savings deposits	12,358	2.96	15,976	2.74	23,665	1.88
Mutual installment deposits (2)	3,575	9.12	4,676	8.77	7,238	7.78
Average total deposits	<u>₩40,079</u>	<u>6.52%</u>	<u>₩51,212</u>	<u>5.93%</u>	<u>₩68,527</u>	<u>5.16%</u>

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

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

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

Certificates of Deposit and Other Time Deposits

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of ₩100 million as of December 31, 2001.

	Certificates of deposit	Other time deposits	Mutual installment deposits	Total
	(in billions of Won)			
Maturing within three months	₩ 859	₩14,347	₩1,545	₩16,751
After three but within six months	53	4,749	474	5,276
After six but within 12 months	148	3,746	711	4,605
After 12 months	—	1,742	673	2,415
Total	<u>₩1,060</u>	<u>₩24,584</u>	<u>₩3,403</u>	<u>₩29,047</u>

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

Short-term borrowings

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

	As of or for the year ended December 31,		
	1999	2000	2001
	(in billions of Won, except percentages)		
Call Money			
Year-end balance	₩ 1,333	₩ 581	₩ 2,701
Average balance (1)	1,215	1,214	991
Maximum balance	1,541	879	3,439
Average interest rate (2)	5.68%	5.11%	4.14%
Year-end interest rate	0.90-7.75%	5.50-6.85%	0.58-5.55%
Borrowings from the Bank of Korea (3)			
Year-end balance	₩ 1,196	₩ 860	₩ 1,397
Average balance (1)	1,397	892	1,146
Maximum balance	2,192	1,122	1,397
Average interest rate (2)	4.51%	4.71%	3.32%
Year-end interest rate	3.00-8.50%	3.00-8.50%	2.50-8.00%
Other short-term borrowings (4)			
Year-end balance	₩ 3,619	₩ 5,509	₩ 9,415
Average balance (1)	2,713	4,049	8,046
Maximum balance	4,837	6,740	9,415
Average interest rate (2)	7.56%	7.38%	6.46%
Year-end interest rate	4.0-10.39%	5.4-9.98%	0.3-17.69%

- (1) Average outstanding balances have been calculated using quarterly averages.
- (2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
- (3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
- (4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by government securities totaling ₩1,976 billion as of December 31, 2001.

Risk Management

Overview

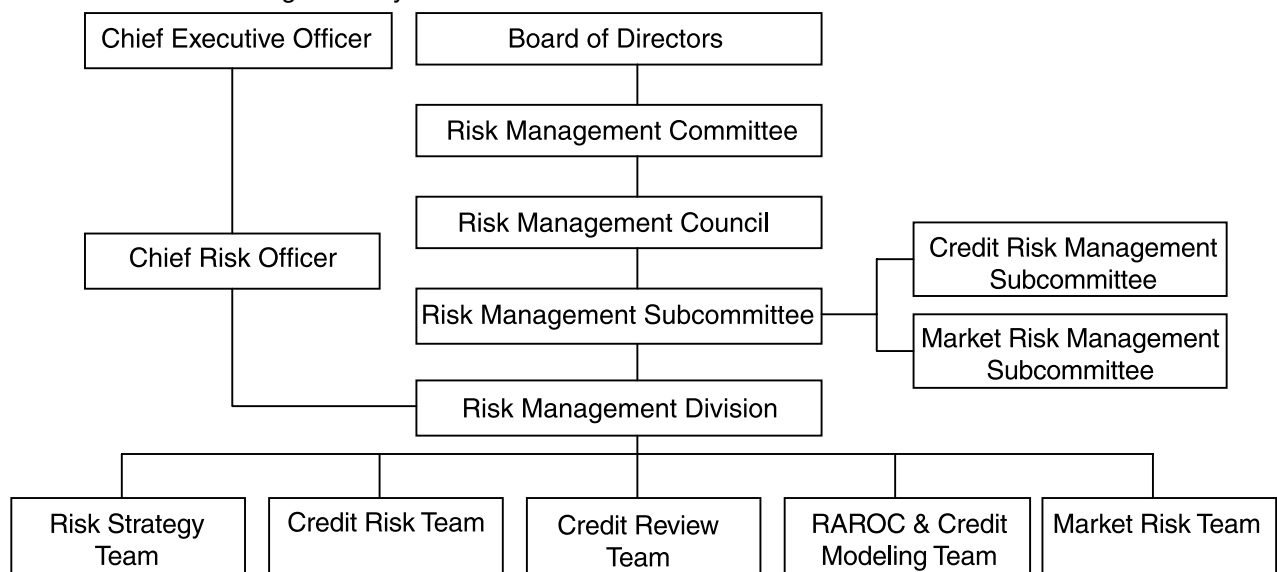
As a financial services provider, we are exposed to various risks relating to our lending and trading businesses, our deposit taking activities and our operating environment. Our goal in risk management is to ensure that we understand, measure and monitor the various risks that arise and that our organization adheres strictly to the policies and procedures which we establish to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk, operational risk and legal risk. To address these and other risks in our business, since the merger we have made significant efforts to integrate in a timely and risk-sensitive manner our predecessor risk management systems in order to create an integrated risk management system through which we can manage our risks within acceptable limits and ensure the soundness of our assets.

Integration Strategy

We are currently in the process of creating an integrated risk management system. Following the merger, we reviewed and evaluated the existing risk management systems used by our “Kookmin Bank”-branded operations and our “H&CB”-branded operations. Following this review, we determined the basic structure of risk management governance and established basic risk management guidelines for the merged organization. In January 2002, working with outside consultants, we selected the risk management systems which we intend to put in place with respect to our various risk operations, and began to establish processes to integrate and unify our other risk management processes. Our goal is to build a risk management system that complies with the best practices of other international financial institutions, which will assist the management in making key risk-related decisions. Currently, we expect that our risk management system will be fully integrated by September 2002. We believe that the effectiveness of this system will be enhanced by our ability to exchange and update data among our principal risk management functions once the integration has been completed.

Organization

We have established a multi-layered risk management governance structure. The highest decision-making body is the Risk Management Committee, which provides Board-level direction to the entities below it. At the operational level, the Risk Management Division works closely with other business units to implement risk management strategies. The following chart sets out the various levels of our risk management system:



The Risk Management Committee and the various entities under it are responsible for market risk management for our trading activities and certain non-trading market risks such as our foreign currency risk and credit risk management.

As a result of an internal review conducted in conjunction with an external consulting firm, the responsibility for market risk management for non-trading activities has been assigned to the Financial Strategy Subcommittee of the Financial Planning Division, which is chaired by our chief financial officer. The Financial Strategy Subcommittee meets on a regular basis to respond to developments in the market and the economy. Based on policies approved by the Risk Management Committee, members of the Financial Strategy Subcommittee, acting through its Financial Planning Team, review our interest rate and liquidity gap positions monthly, formulate a view on interest rates, set deposit and prime lending rates and review the business profile and their impact on asset and liability management.

We intend to transfer management of our non-trading foreign currency risk to the Financial Planning Division. Credit risk management for our non-trading operations is expected to remain with the Risk Management Division.

Risk Management Committee

The Risk Management Committee is our highest decision-making body with respect to our risk management operations, consisting of four non-standing outside directors. It is a board-level committee to which the board of directors has delegated the authority and responsibility to manage our overall risks. The Risk Management Committee advises the board of directors on all risk management-related issues and its major roles include:

- establishing risk management strategies in accordance with the directives of the board of directors;
- determining basic principles and principal policies for risk management;
- creating and amending the regulations for risk management activities; and
- reviewing the level of risks we are exposed to and the status of our risk management operations.

Our Risk Management Committee convenes at least quarterly and makes decisions by majority votes of the attending members, which must constitute a majority of the committee members to be a quorum.

Risk Management Council

The Risk Management Council is the executive decision-making body for our risk management operations. It consists of 12 executive vice presidents.

Its responsibilities include:

- developing detailed risk management plans based upon the principles and policies set out by the Risk Management Committee;
- setting limits for integrated risk levels and each type of risk;
- allocating risk-adjusted capital to each business group;
- analyzing our risk status;
- reviewing the key decisions of the operating risk management entities;
- making key decisions and coordinating issues relating to the integration of our risk management functions; and
- performing any other duties delegated by the Risk Management Committee.

The Risk Management Council works closely with our business units to implement our risk management strategies. Our business groups and departments provide a variety of information to the Risk Management Council, including:

- reports of asset and liability management-related matters, including changes in risk-weighted assets, Bank for International Settlements capital adequacy ratio and credit portfolio status by industry on a quarterly basis; and
- reports of risk management-related matters, including the status of overall risk management, the status of limit compliance, the analysis and suggestions for quarterly credit reviews and the results of quarterly stress testing and back testing.

Risk Management Subcommittee

Our Risk Management Subcommittee executes the decisions made by the Risk Management Council and makes operational decisions regarding risk management policies and procedures. The Risk Management Subcommittee is itself divided into two subcommittees:

- Credit Risk Management Subcommittee, which allocates credit risk limits, sets total exposure limits, and decides certain working-level issues relating to credit risk management. It is composed of 17 team managers, including the team managers from the Risk Management Division and other relevant business units, such as our Corporate Banking Division, Retail Banking Division, Financial Planning Division and International Finance Division, and has the power to waive total exposure limits set by the Risk Management Council in certain exceptional circumstances.
- Market Risk Management Subcommittee, which sets market-risk related limits, determines which market-risk derivative instruments we can trade and decides certain working-level issues relating to market risk management, including issues relating to interest rate risk and liquidity risk. It is composed of nine team managers, including the team managers from the Risk Management Division and other relevant business units, such as our Corporate Banking Division, Retail Banking Division, Financial Planning Division and International Finance Division.

The Risk Management Subcommittees set risk limits for each account type, risk type, business group and department.

Risk Management Division

Our Risk Management Division assesses, manages and controls the overall risks relating to our assets and liabilities at the operational level. By measuring, monitoring, controlling and reporting on risks, the division helps us to effectively manage our risk exposure. The Risk Management Division is divided into five teams:

- Risk Strategy Team, which establishes and implements our enterprise-wide risk management plan;
- Credit Risk Team, which manages our credit portfolio, makes credit assessments and formulates our credit risk policy;
- Credit Review Team, which reviews and monitors credit exposure;
- Risk-Adjusted Return on Capital (RAROC) and Credit Modeling Team, which measures and analyzes both risk-adjusted returns on capital and our credit rating/scoring system; and
- Market Risk Team, which formulates market risk policy and measures, controls and reports interest rate, price and liquidity risk.

The Risk Management Division is responsible for monitoring compliance with the total risk limit, while the middle offices in the various business groups monitor compliance with their respective limits. The teams monitor market risk on a daily basis and credit risk, interest rate risk and liquidity risk on a monthly basis. The Risk Management Division reports quarterly to the Risk Management Committee and monthly to our chief risk officer.

Operational Risk Management

The five risk management teams are the main execution bodies of our risk management system. They act independently from our other business groups in order to enhance the effectiveness of our risk management policies. Their major responsibilities include:

- implementing matters delegated by the Risk Management Committee and Subcommittees;
- managing various types of risks;
- developing systems relating to our risk management operations;
- reviewing the risk management practices of each business group; and
- managing our total interest rate risk.

In addition, our business groups manage risks specifically related to their respective businesses.

Credit Risk Management

The objectives of our credit risk management policies are to improve our asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. We believe that an integrated risk management system that can identify and manage all of the risks generated by our business using a standardized quantitative methodology is essential to achieving these objectives. Our credit risk management system conducts various statistical analyses to ensure that we are maximizing our returns based on acceptable risk levels. These operations are coordinated by the Credit Risk Team, although each business unit is responsible for implementing the credit risk management models constructed or approved by the Credit Risk Team. We manage our credit risk at two levels: individual credit risk at the business group level and total credit risk at the Risk Management Division level. We perform our credit risk management procedures pursuant to our internal guidelines and regulations and we continually monitor and improve these guidelines and regulations. Our credit risk management procedures include:

- credit evaluation;
- credit analysis and loan approval;
- credit risk measurement and control; and
- credit review and monitoring.

We utilize expected default rates and recovery rates that we calculate through our credit evaluation to determine borrowers' expected loss rates, which are used in credit-related decisions, including pricing, loan approval and establishment of standards to be followed at each level of decision-making authority.

Credit Evaluation

All loan applicants and guarantors are subject to credit review before approval of any loans, except for loans guaranteed by letters of guarantee issued by the Housing Finance Credit Guarantee Fund or by highly rated banks and for loans to certain fully-collateralized borrowers. The loan process differs depending on whether the loan is a mortgage loan, a general consumer loan or a corporate loan. In addition, our "Kookmin"-branded operations and our "H&CB"-branded operations currently use slightly different credit scoring and approval systems in determining whether to approve a loan. We expect these systems to be completely integrated by September 2002.

Retail Loan Approval Process

Mortgage Loans and Secured Retail Loans. Mortgage loans and retail loans secured by real estate, securities or deposits are approved by the staff at our processing centers following a review of the value of the collateral for the loan. Loan applications are forwarded by our branch staff to our processing centers. The lending decision is made on the basis of our assessment of the value of the collateral.

For mortgage loans and loans secured by real estate, we evaluate the value of the real estate offered as collateral for a loan using a database we have developed, which contains information about real estate values throughout Korea. In addition, we use information from a third party provider of information about the real estate market in Korea, which gives us up-to-date market value information for Korean real estate values. In addition, staff from our processing centers appraise the real estate.

For loans secured by securities, we evaluate the value of the securities based upon the average market value of the securities. If the value of the securities decreases over the life of the loan, the borrower will be required to post additional securities as collateral. For loans secured by deposits we will grant loans in an amount up to 100% of the deposit amount if the deposit is held with us, or, if the deposits are held with another financial institution, a lesser amount determined on the basis of the credit rating of the relevant financial institution. We also require borrowers in respect of secured obligations to observe specified collateral ratios.

A loan approval decision is generally made within five to seven days.

Unsecured Retail Loans. Loan applications for unsecured retail loans are reviewed in accordance with our credit scoring systems, which differ slightly between our “Kookmin Bank”-branded operations and our “H&CB”-branded operations. The credit scoring systems are automated credit approval systems used to evaluate loan applications and determine the appropriate pricing for the loan. The major benefits of using a credit scoring system are that it yields a uniform result regardless of the user, that it can be used effectively by employees who do not necessarily have extensive experience in credit evaluation and that it can be updated easily to reflect changing market conditions by changing how each of the factors are weighted. Loans are approved by the staff of our processing centers based on the results of the credit scoring system. We are currently in the process of integrating our credit scoring systems, and have already analyzed and modified them in an effort to ensure that borrowers receive the same result under either system.

Our credit scoring systems take into account factors such as a borrower’s income, assets, profession, age, transaction history with us and other financial institutions and other relevant credit information. The borrower is ranked in an appropriate class and that classification is used to decide whether to approve loans as well as determine loan amounts. The credit scoring system used by our “Kookmin Bank”-branded operations and the system used by our “H&CB”-branded operations are similar in most respects. In cases where customers have had prior relationships with both Kookmin Bank and H&CB, we will consider factors such as transaction history (both in terms of volume and duration) to determine which system to use in evaluating that customer’s credit. We intend to fully integrate these systems by September 2002.

Depending on the particular borrower, we may or may not apply our credit scoring systems for loans to:

- borrowers with a significant transaction history with us and for whom we have accumulated substantial data or our high net worth customers;
- borrowers who have already provided us with real estate collateral in connection with a previous loan;
- borrowers who are teachers or who are government or military employees and who agree to repay the loan directly out of their retirement allowance; and
- students who will be paying tuition with the loans.

Corporate Loan Approval Process

Loan applications from corporate borrowers are reviewed in accordance with our credit rating systems for corporate borrowers, which differ slightly between our “Kookmin Bank”-branded operations and our “H&CB”-branded operations. The systems measure various quantitative and qualitative factors. Loans are approved at different levels of our organization depending upon the size and type of the loan, whether the loan is secured by collateral, the level of credit risk established by the credit rating system and, if the loan is secured, an assessment of the collateral. The lowest level of authority is the corporate branch manager, who can approve small loans and loans which have the lowest range of credit risk. Larger loans and loans which are determined to have greater credit risk are approved by higher levels of authority depending on where they fall in a matrix of size and credit risk. The levels of authority increase from a single corporate branch manager (alone or together with a risk manager co-signatory), to a branch or business center loan committee, to a committee of credit officers and ultimately, for the largest loans or loans which present a large credit risk, to our Loan Committee, which includes a number of more senior executive officers.

The following table identifies the various committees that are involved in the credit approval process for corporate loans. Depending on the size and terms of any particular loan or the credit risk relating to a particular borrower, some or all of these committees may review that application, although generally loan applications are reviewed only by the highest-level committee required to approve the loan.

<u>Committee</u>	<u>Members</u>	<u>Approval Process</u>
Headquarters Approval		
Loan Committee	Executive Vice President of Corporate Banking Business Unit; Executive Vice president of Risk Management Division; Credit Analysis Team Manager; Credit Risk Team Manager; Loan Policy Team Manager; Corporate Banking Team Manager; Loan Management Team Manager; Business Research Team Manager (8 persons)	$\frac{2}{3}$ or more participation; $\frac{2}{3}$ or more required for approval
Senior Credit Officers Committee	Five Senior Credit Officers and one Credit Officer (6 persons)	$\frac{2}{3}$ or more participation; $\frac{2}{3}$ required for approval
Credit Officers Committee . . .	One Senior Credit Officer and two Credit Officers (3 persons)	Participation of all members; unanimous approval
Local/Regional Approval		
Business Banking Center Committee	Business Loan Center Manager and two Credit Officers (3 persons)	Participation of all members; unanimous approval
Branch Loan Committee	Branch Managers and three other persons (4 persons)	Participation of all members; unanimous approval

We rate all of our corporate borrowers using a rating system, except for applicants whose borrowings are either fully guaranteed by deposits or who have obtained third-party guarantees from

the government or certain other very highly rated guarantors. We use internally developed credit evaluation models to rate potential borrowers. The nature of the scoring system depends on whether the borrower is a large company or a small- or medium-sized enterprise, and the scoring systems vary slightly between our “Kookmin Bank”-branded operations and our “H&CB”-branded operations. We intend to fully integrate our corporate credit scoring systems by September 2002. For large companies, the model ranks the borrower in one of 12 classes (from AAA to D); these classifications have been standardized between our dual-branded operations. For small- and medium-sized enterprises, only 11 classes are available; no such enterprise can be ranked AAA.

For certain applications, simplified credit evaluation modeling procedures have been put in place. Full statistical models are only available for certain categories of potential borrowers. For our “Kookmin Bank”-branded operations, we are able to use our full modeling capabilities only for companies that have been in existence for at least six months. For our “H&CB”-branded operations, we are able to use full modeling procedures only for companies that can provide at least two full years of financial statements and that have at least ₩500 million of total assets. All large corporations are evaluated by credit analysts of the Credit Risk Team.

Our credit rating systems take into account a variety of evaluation criteria in order to standardize credit decisions, by focusing on the quality of borrowers rather than the volume of loans. The systems include both quantitative factors based on the borrower’s financial and other data, and quantitative and qualitative factors based on the judgment of our credit analysts. Financial evaluation factors we consider include financial variables and ratios based on our customer’s financial statements, such as return on assets and cashflow to total debt ratios. Non-financial evaluation factors include the industry in which the borrower operates, its competitive position in its industry, its operating and funding capabilities, our belief regarding its financial prospects, the quality of its management and controlling stockholders (based in part on interviews with its officers and employees), technological capabilities, labor relations, the status of its auditors and information gathered from outside sources such as rating agencies or industrial associations. We consult reports prepared by external credit rating services, such as Korea Information Service, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation. We use these services to provide us with support for the accuracy of the credit review we conduct. Our “Kookmin Bank”-branded operations use the “Corporate Credit Rating System”, or CCRS, and our “H&CB”-branded operations use the “Credit Rating System”, or CRS, in making these evaluations. These systems are similar with some minor differences. For example, CCRS uses 15 models categorized by industry and asset size, while CRS uses fewer models. As noted above, these systems cannot be used to evaluate certain classes of borrowers.

Based on the scores calculated under the relevant credit rating system, we assign the borrower one of 12 grades of project default rates as previously described. The credit rating is determined once consensus is reached among the various credit officers who sit on the credit officer council. We also use a “non-performing borrower forecast model” to finalize the ratings for all of our operations. Our non-performing borrower forecast model consists of the following sub-models:

- financial checking model, which checks if there is any financial ratio with an exceptionally low score;
- probability model, which statistically calculates the probability of a default; and
- non-performing symptom checking model, which checks non-quantitative factors that may cause a default.

We monitor and improve the effectiveness of our credit scoring systems using a database that we update continually with actual default records.

Total Exposure Management System

We establish and manage credit limits for corporate counterparties in order to optimize the use of credit availability and avoid excessive risk concentration. We establish credit limits for individual corporations and chaebols taking into account their ability to repay, their industry, size, financial ratios and credit rating. For small- and medium-sized enterprises, their credit limits are set using the credit rating system. Our basic credit limit is 20% of our Tier I and Tier II capital for a single chaebol, and 1% to 10% of our Tier I and Tier II capital for individual corporations depending on their credit ratings. These credit limits are lower than the regulatory limits that Korean banks are required by law to follow. In determining the actual credit limit for each individual corporation and chaebol, we consider mainly their credit rating and their size. The credit limit is set by our Credit Risk Management Subcommittee. In certain exceptional cases where loans to corporations are secured by sufficient collateral or pose a low credit risk (*i.e.*, the collateral covers several times the value of the loan), such loans may be extended on a case by case basis even if the applicable credit limit is exceeded.

Credit limits are managed and controlled on a daily basis. The principal system that we use for managing and controlling credit limits is the Total Exposure Management System. This system allows us to monitor and control our total exposure to corporations and chaebols. We monitor our exposure to those individual corporations to which we have an exposure exceeding ₩30 billion, and our exposure to the 60 largest chaebols in Korea identified by the Financial Supervisory Commission based on their outstanding exposures. Our Total Exposure Management System integrates all of our credit-related risk including credit extended by our foreign branches. The assets subject to the system include all Won currency and foreign currency loans and loan-like products from the banking and trust accounts, including guarantees and acceptances, trade-related credits, commercial paper and corporate bonds.

Integrated Collateral System

We use the Integrated Collateral System for managing the liquidation value of collateral. The Integrated Collateral System is a computerized collateral management system that can be accessed from our headquarters and our branches. Through the Integrated Collateral System, we can more accurately assess the actual liquidation value of collateral, determine the recovery rate on our loans and use this information for our credit risk management and loan policies. We are able to monitor the value of all the collateral provided by a borrower and the value of the collateral based on its liquidation value. When appraising the value of real estate collateral, which make up the largest part of our collateral, we consult a regularly updated database provided by a third party that tracks the prices at which various types of real estate in various regions of the country are sold. We appraise the value of collateral at the time a loan is made, when the loan is due for renewal and when events occur that may change the value of the collateral.

Credit Card Approval Process

We believe that the improper verification of identity and applicant information and payment delinquencies are the main sources of credit risk in the credit card business.

Approval of credit card applications is based largely on the credit history, occupation, job title and income of the applicant. For credit card applicants with whom we have existing relationships, approval is also based on factors such as repayment ability, total assets, the length of the existing relationship and the applicant's contribution to our profitability. All of these factors also act as the basis for setting a credit limit if we approve an application.

Credit checks are undertaken before credit card applicants are approved. We gather information about applicants from a number of external agencies including BC Card, other credit card companies

in Korea, the Korea Federation of Banks and credit rating agencies. These credit checks contain a list of the delinquent customers of all the credit card issuers in Korea.

In 2000, prior to the merger, our “H&CB”-branded operations developed a credit scoring system that we currently use to evaluate credit card applications. The system was actively implemented in the second half of 2001 together with a new credit card management system. Kookmin Credit Card, one of our subsidiaries, utilizes a separate system. However, this separate system functions similarly to our internal system. These systems allow us to carry out our credit card business more efficiently by focusing on profit contribution analysis, credit limit management, management of bonus points and other management tools.

Credit Risk Measurement and Control

To measure credit risk, we have developed systems designed to quantify credit risk. Following the merger, we adopted a system based on an expected loss-unexpected loss methodology after consultation with external consultants, the parameters of which have been restated to take into account historical credit data from both of our dual-branded operations when measuring credit risk.

We measure credit risk using internally accumulated data. We measure expected and unexpected losses with respect to our total assets quarterly, which we refer to when we set risk limits for, and allocate capital to, our business groups. The status of our overall credit risk and credit risk by business group, industry and account are measured and communicated quarterly through our information system to our senior management, the Risk Management Committee and the relevant business groups. The report contains information regarding capital adequacy, risk-adjusted return on capital (“RAROC”) and economic value added (“EVA”) by business unit. We believe that RAROC provides a more useful means for managing credit risk.

Credit Review and Monitoring

Our Credit Review Team, in our Risk Management Division, is independent of our operating teams and continually monitors our existing credit risk primarily with respect to our borrowers. Our Credit Review Team also makes suggestions to maintain our asset quality, including early collections and adjustments of credit rating, total exposure and asset portfolio. When a review takes place, we may adjust the credit ratings of our borrowers based on a variety of factors, including asset quality, credit limits, applied interest rates and our credit policies. In addition, the group credit rating of the borrower’s group, if applicable, may be adjusted following a periodic review of the main debtor groups identified by the Governor of the Financial Supervisory Service based on their outstanding credit exposures, of which 35 were identified most recently in April 2002. We also continually review other factors, such as industries in which borrowers operate and their domestic and overseas asset base and operations, to ensure that our ratings are appropriate. The Credit Review Team provides credit review reports to senior management on a monthly basis and to the Risk Management Committee on a quarterly basis.

We have developed an early warning system which monitors 40 factors, including the financial status, financial transaction status, industry rating and management status of borrowers. The system also keeps track of information on the credit status of borrowers. Some updating information is fed automatically from internal and external sources while other data is gathered and updated manually. The system automatically inputs:

- the total amount of loans that were extended by other financial institutions to the same borrower, as reported monthly by the Korea Federation of Banks;
- financial data relating to the borrower supplied by Korea Information Service and our internal credit rating system;

- our internal credit rating;
- the estimated recovery rate for collateral provided by the borrower;
- whether a borrower is included in the list of problem creditors in the register maintained by the Korea Federation of Banks;
- whether the borrower has defaulted on any payments owed to us; and
- the status of the borrower's financial transactions with us.

Information is also input by the relationship management team for borrowers with whom we have more than ₩1 billion of exposure. The information is derived from the early warning checklist that the relationship management personnel must fill out periodically and as the need arises. Information in the checklist includes:

- whether the borrower has ceased operating for more than three months;
- for construction companies, whether construction has stopped for more than three months and prospects for sales of sites under construction or those which are already constructed;
- whether contests for management control are taking place;
- whether there is tension in labor relations;
- whether the borrower uses an excessive amount of negotiable paper or financing from the financial markets; and
- whether any of the borrower's affiliates have defaulted on their obligations.

Depending on the nature of the problem detected by the early warning system, a borrower may be classified as a "deteriorating credit" and undergo evaluation for a possible downgrade in its customer rating, or may be initially classified as a "borrower showing early warning signs." In addition, any company with an exposure of between ₩1 billion and ₩3 billion is checked for deterioration periodically (monthly, quarterly or semi-annually, depending on its credit rating) and before any new credit may be extended to that borrower. For any company with an exposure of over ₩3 billion, in addition to these periodic checks, there is an annual check performed by the Credit Review Team. For borrowers classified as "showing early warning signs," the relevant relationship management team gathers information and conducts a review of the borrower to determine whether it should be classified as a deteriorating credit. For any exposure under ₩1 billion monitoring is done at the branch level. The adjustment in the credit rating of a borrower is made by the managing branch for exposures of ₩3 billion or less and by a loan reviewer in our Credit Review Team for exposures greater than ₩3 billion. The Credit Review Team also conducts reviews of companies which have been classified as deteriorating credits by our early warning system.

Market Risk Management

The principal market risks to which we are exposed are interest rate risk and, to a lesser extent, equity risk and foreign exchange risk. The financial instruments that expose us to such risks are loans, deposits, securities and financial derivatives. We are not exposed to commodity risk, the other recognized form of market risk, as we do not hold any commodity positions. We divide market risk into risks arising from trading activities and risks arising from non-trading activities.

The Risk Management Committee establishes overall market risk management principles both for our trading and non-trading activities. The Risk Management Committee has delegated the responsibility for the market risk management for trading activities to the Market Risk Management Subcommittee that is chaired by our chief risk officer. The Market Risk Management Subcommittee

meets as required on a regular basis to respond to developments in the market and the economy. Based on the policies approved by the Risk Management Committee, members of the Market Risk Management Subcommittee review and approve reports on a quarterly basis and as otherwise required that include trading profits and losses, position reports, sensitivity analysis and “value at risk,” or VaR results for our trading activities.

As a result of an internal review conducted in conjunction with an external consulting firm, the responsibility for market risk management for non-trading activities has been assigned to the Financial Strategy Subcommittee, which is chaired by our chief financial officer. This Subcommittee is overseen by the Financial Strategy Council chaired by our chief executive officer. The Financial Strategy Subcommittee meets on a regular basis and as required to respond to developments in the market and the economy. Members of the Financial Strategy Subcommittee, acting through its Financial Planning Team, review our interest rate and liquidity gap position monthly, formulate a view on interest rates, set deposit and prime lending rates and review the business profile and its impact on asset and liability management.

Market Risk Management for Trading Activities

Our trading activities consist of:

- trading activities for our own account to realize short-term trading profits in Won-denominated debt and stock markets and foreign exchange markets based on our short-term forecast of changes in market situation and customer demand; and
- trading activities involving derivatives such as swap, forward, future and option transactions, primarily to realize profits from arbitrage transactions and, to a lesser extent, to sell derivative products to our customers and to cover market risk incurred from those tradings.

Market risk arising from our trading activities can be subdivided into interest rate risk, foreign exchange risk and equity risk:

- Interest rate risk is the principal risk to which our trading position is exposed. Our interest rate risk arises primarily from our Won-denominated debt securities held by the Securities Management Team and the Trust Team and Won-denominated debt securities included in beneficiary certificates managed by the Fund Management Team and, to a lesser extent, from the Won-denominated debt securities and interest rate derivatives held by the International Treasury Team’s derivatives desk. Our net exposure to interest rate risk arising from foreign currency-denominated trading debt securities is minimal since our net position in those securities is not significant.
- Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both our trading and non-trading accounts and financial derivatives involving foreign currencies. We control our foreign exchange risk on a total position basis by covering all of our foreign exchange positions both from our trading and our non-trading operations.
- Equity risk arises from Won-denominated equity securities. Our exposure to equity risk from trading activities is not significant.

The principal objective of our hedging strategy is to manage our market risk within established limits. We use derivative instruments to hedge our market risk as well as to make profits by trading derivative products within acceptable risk limits. Our derivative trading includes interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate agreements and currency options. We use the following hedging instruments to manage relevant risks:

- to hedge interest rate risk from its trading activities, the Securities Management Team occasionally uses interest rate futures (Korea Treasury Bond Futures);

- to hedge equity risk from its trading activities, the Securities Management Team selectively uses stock index futures; and
- to hedge interest rate risk and foreign exchange risk from our foreign currency-denominated asset and liability positions as well as our trading activities, the International Financing Team and International Treasury Team use interest rate swaps, cross-currency swaps, foreign exchange forwards and futures, Euro-dollar futures and currency options.

We generally manage our market risk at the entire portfolio level. To control our exposure to market risk, we use position limits, VaR limits, and stop loss limits approved by the Risk Management Committee. We prepared our risk control and management guidelines for derivative trading based on the regulations and guidelines promulgated by the Financial Supervisory Commission.

We measure market risk from trading activities to monitor and control the risk of our business groups and teams that perform trading activities.

The market risk measurement model used by our Won-denominated trading operations is implemented through a risk management system called Panorama, which enables us to generate elaborate and consistent VaR numbers for all trading activities. Our foreign-denominated trading operations are currently using two systems: Panorama, and a second system developed based on RiskWatch®. Our intention is to switch those operations using the RiskWatch-based system to Panorama by August 2002. Both of these systems measure market risk for different products using different measuring methodologies:

- For linear products such as equity and debt securities, we use the “variance-covariance method” which takes into account the diversification effects among different risk factors as well as within the same risk factor.
- Our variance-covariance method is supplemented by historical simulation and “Monte Carlo” simulation models that we apply to measure market risk of non-linear products such as options.

Value at Risk analysis. We use daily “value at risk,” or VaR, to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that can occur for a day. We use a 99% confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days.

“Value at risk” is a commonly used market risk management technique. However, this approach does have some shortcomings. By its nature as a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movement, however, is not necessarily a good indicator of future events. Another shortcoming is that the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are not sufficient, or too long, the VaR results may understate or overstate the potential loss.

The following table shows our daily VaRs as of December 31, 2001, at a 99% confidence level for a one-day holding period, for interest rate risk, foreign exchange risk and equity risk relating to our trading activities. The following figures are calculated only for Kookmin Bank and not our subsidiaries. We have not provided information for any prior period as such data would not be

comparable to current data following the changes in our asset base and VaR methodologies resulting from the merger.

	<u>As of December 31, 2001</u>
Risk categories:	
Interest rate risk	31.5
Foreign exchange risk	0.3
Equity risk	2.4
Less: diversification	1.4
VaR for overall trading activities	32.8

Stress test. In addition to VaR, we perform stress testing to measure market risk. As VaR assumes normal market situations, we assess our market risk exposure to abnormal market fluctuations through stress testing. Stress testing is an important way of supporting VaR since VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner which is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that no action is taken during a stress event to change the risk profile of a portfolio. Until we have integrated the two risk management systems, we are using relatively simple but fundamental scenarios for stress testing. These scenarios consist of applying maximum movements in terms of the historical worst-case scenario and the most recent calendar year to our portfolio. However, actual movements may not be that extreme, nor the actual impact on the portfolio value that large since market prices historically have some correlation. The resulting changes in market value of our trading portfolio given these stress scenarios were ₩202 billion with respect to the historical worst-case scenario and ₩52 billion with respect to the most recent calendar year. We also perform back testing to check the validity of our internal model for market risk measurement.

Although we have not set any limits on stress testing, we monitor the impact of market turmoil or any abnormality. If the impact is large, our chief risk officer may request a portfolio restructuring or other proper action.

Interest Rate Risk

Interest rate risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates.

As our trading accounts are marked-to-market daily, we manage the interest rate risk related to our trading accounts using market value-based tools such as VaR and duration gap analysis. Our interest rate risk management with respect to our non-trading accounts focuses on both income stability and market value stability. Accordingly, we use interest rate gap analysis together with duration gap analysis to manage interest rate risk related to our non-trading accounts.

A portion of our investment debt securities portfolio, which amounts to ₩4.0 trillion, has been entrusted to Jooeun Investment Trust Management Co. on the condition that it will comply with the investment guidelines set by us. Jooeun Investment Trust Management, a specialized asset management company which receives consulting advice from the ING Groep, invests in a variety of Korean treasury bonds, government bonds and other financial institution-issued bonds rated higher than A (as rated by Korean debt rating agencies) and reports its trading records to us on a daily basis. Our Risk Management Division monitors risks relating to these investments.

As of December 31, 2001, the VaR of our interest rate risk from trading was ₩31.5 billion and the weighted average duration, or weighted average maturity, of our Won-denominated trading debt securities was approximately 1.68 years.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in currencies other than the Won.

Assets and liabilities denominated in U.S. dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese yen and the euro account for most of the remainder. We use cross currency swaps to convert our foreign currency denominated fixed rate borrowings to U.S. dollar floating rate borrowings and forward foreign exchange contracts to fund foreign currency lending.

The difference between our foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain our net foreign currency open position. This is our foreign exchange risk. The Market Risk Management Subcommittee oversees our foreign exchange exposure for both trading and non-trading purposes by establishing a limit for this net foreign currency open position, together with stop loss limits. VaR limits are established for our entire foreign exchange business.

The following table shows our non-consolidated net open positions at the end of 1999, 2000 and 2001. Positive amounts represent long exposures and negative amounts represent short exposures. The net open positions held by subsidiaries are not significant.

<u>Currency</u>	<u>As of December 31, (1)</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(in millions of US\$)		
US\$	\$22.8	\$(39.5)	\$(52.26)
JP¥	0.8	(5.1)	(6.26)
Euro	—	(22.5)	2.49
Others	(0.8)	44.8	4.75
Total	<u>\$22.8</u>	<u>\$(22.3)</u>	<u>\$(51.28)</u>

(1) Amounts prepared on a non-consolidated basis.

Equity Price Risk

Equity price risk results from our equity portfolio in Won since we do not hold any foreign currency shares except for convertible bonds in foreign currency. The conversion rights for foreign currency-denominated convertible bonds have been sold and therefore our equity risk exposure in this regard is limited.

The trading equity portfolio in Won consists of exchange listed stocks and nearest month or second nearest month futures contracts under strict limits on diversification as well as position limits. This has been an area of particular focus due to the level of volatility in the stock market. In addition, we pay close attention to the loss limits.

As of the end of 2001, our equity trading position was ₩45.7 billion. However, we have exposure to equity securities of ₩446 billion from our available-for-sale securities account, in the form of beneficiary certificates that include equities as component elements.

Derivative Market Risk

While we use derivatives for our hedging purposes, derivative transactions themselves incur market risk as we take trading positions and trade them for the purpose of making a profit. Our

derivative activities include interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate agreements and currency options. These activities consist primarily of the following:

- arbitrage transactions to make profit from short-term discrepancies between the spot and derivative markets or within the derivative markets;
- sales of tailor-made derivative products that meet various needs of our corporate customers and related transactions to reduce our exposure resulting from those sales;
- taking positions in limited cases when we expect short-swing profits based on our market forecasts; and
- trading to hedge our interest rate and foreign currency risk exposure as described above.

Market risk from trading derivatives is not significant since our derivative trading activities are primarily driven by arbitrage and customer deals with very limited open trading positions.

Market Risk Management for Non-Trading Activities

Interest Rate Risk

Our principal market risk from non-trading activities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of these rate-sensitive assets and liabilities. We measure interest rate risk for Won and foreign currency assets and liabilities in our bank accounts (including derivatives) and assets and liabilities in our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency denominated assets and liabilities are mostly denominated in U.S. dollars.

The principal objectives of our interest rate risk management are to generate stable net interest revenues and to protect our asset value against interest rate fluctuations. We perform gap analysis and duration gap analysis for interest rate risk management of our non-trading activities.

To date, we have used hedging instruments on a limited basis for interest rate risk management for our non-trading assets and liabilities since the Korean financial market has not been sufficiently developed for this purpose. But we expect to increase our use of derivatives to hedge this risk in the near future as the Korean financial market is rapidly becoming more sophisticated. Currently, we principally manage this risk by managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. We perform interest rate gap analysis for Won and foreign currency denominated assets and trust assets on a monthly basis.

Interest Rate Gap Analysis. For interest rate gap analysis we use or assume the following maturities for different assets and liabilities:

- With respect to maturities of assets, we assume remaining maturities of prime rate-linked loans with remaining maturities of over one year to be one year and use the actual maturities for prime rate-linked loans with remaining maturities of less than one year; furthermore, we assume the reserves with the Bank of Korea and loans and securities classified as substandard or below to have remaining maturities of over three years.
- With respect to maturities of liabilities, we assume “non-core” demand deposits under the Financial Supervisory Commission guidelines to have remaining maturities of less than three months; and we assume “core” demand deposits under the same guidelines to have remaining maturities of over three years.

The following table shows our non-consolidated interest rate gap for Korean won-denominated and foreign currency-denominated accounts as of December 31, 2001, based on our Korean GAAP accounts.

As of December 31, 2001 (1)						
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
(in billions of Won, except percentages)						
Won-denominated:						
Interest-earning assets						
Due from banks	₩ 2,165	₩ 100	₩ 250	—	₩ 795	₩ 3,310
Loans	29,888	16,284	40,165	₩ 3,765	4,597	94,699
Securities	7,519	1,206	4,159	13,006	4,094	29,984
Others	684	391	1,101	4,103	773	7,052
Total	<u>₩40,256</u>	<u>₩17,981</u>	<u>₩45,675</u>	<u>₩20,874</u>	<u>₩ 10,259</u>	<u>₩135,045</u>
Interest-bearing liabilities						
Deposits	₩40,232	₩13,756	₩20,936	₩11,862	₩ 23,175	₩109,961
Borrowings	5,227	1,349	3,251	3,197	4,216	17,240
Others	62	7	3	—	1,674	1,746
Total	<u>₩45,521</u>	<u>₩15,112</u>	<u>₩24,190</u>	<u>₩15,059</u>	<u>₩ 29,065</u>	<u>₩128,947</u>
Sensitivity gap	₩(5,265)	₩ 2,869	₩21,485	₩ 5,815	₩(18,806)	₩ 6,098
Cumulative gap	(5,265)	(2,396)	19,089	24,904	6,098	
% of total assets	(3.4)%	(1.5)%	12.2%	15.9%	3.9%	

As of December 31, 2001 (1)						
	0-3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Total
(in millions of US\$, except percentages)						
Foreign currency-denominated:						
Interest-earning assets:						
Due from banks	\$ 1,335	\$ 260	—	—	\$ 147	\$ 1,742
Loans	2,023	778	\$ 22	\$ 3	212	3,038
Securities	412	238	76	232	41	999
Others	989	190	13	29	3	1,224
Total	<u>\$ 4,759</u>	<u>\$ 1,466</u>	<u>\$ 111</u>	<u>\$ 264</u>	<u>\$ 403</u>	<u>\$ 7,003</u>
Interest-bearing liabilities:						
Deposits	\$ 1,019	\$ 479	\$ 54	\$ 3	—	\$ 1,555
Borrowings	3,258	763	—	72	\$ 266	4,359
Others	—	120	169	163	104	556
Total	<u>\$ 4,277</u>	<u>\$ 1,362</u>	<u>\$ 223</u>	<u>\$ 238</u>	<u>\$ 370</u>	<u>\$ 6,470</u>
Sensitivity gap	\$ 482	\$ 104	\$ (112)	\$ 26	\$ 33	\$ 533
Cumulative gap	482	586	474	500	533	
% of total assets	0.3%	0.4%	0.3%	0.3%	0.3%	

(1) The numbers are prepared on a non-consolidated basis in accordance with Korean GAAP for internal management purposes.

Duration Gap Analysis. We also perform a duration gap analysis for measurement and management of interest rate risk, which is a more long-term risk indicator than the interest rate gap analysis, as interest rate gap analysis focuses only on accounting income and not on the market value of the assets and liabilities. We put emphasis on the duration gap analysis because in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes. During 2001, our asset and liability duration gap moved between 0.0057 years and 0.0185 years. Accordingly, our net asset value would have declined by ₩7 billion to ₩23 billion if interest rates increased by one percentage point.

For duration gap analysis we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

The following table shows, on a non-consolidated basis, duration gaps and net asset value changes when interest rate increases by one percentage point as of the specified dates.

<u>Date</u>	<u>Asset duration</u>	<u>Liability duration</u>	<u>Duration gap</u>	<u>Net asset value change</u>
	(in years)	(in years)	(in years)	(in billions of Won)
June 30, 2001	0.8736	0.8611	0.0185	₩(23)
September 30, 2001	0.8313	0.8462	0.0056	(7)
December 31, 2001	0.8626	0.8790	(0.0117)	15

We set interest rate risk limits using historical interest rate volatility of government bonds and duration gaps with respect to expected asset and liability positions based on our annual business plans. The Asset and Liability Management Unit in our Financial Planning Division submits gap analysis reports, duration gap analysis reports, sensitivity reports and interest rate limit compliance reports to our Financial Strategy Subcommittee of the Financial Strategy Council on a monthly basis.

The following table summarizes, on a non-consolidated basis, our interest rate risk, taking into account asset and liability durations as of December 31, 2001.

	As of December 31, 2001					
	<u>3 months or less</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-3 years</u>	<u>Over 3 years</u>	<u>Total</u>
	(in millions of US\$, except percentages and maturities in years)					
Won-denominated:						
Asset position	\$40,256	\$17,981	\$45,675	\$20,874	\$10,259	\$135,045
Liability position	45,521	15,112	24,190	15,059	29,065	128,947
Gap	(5,265)	2,869	21,485	5,815	(18,806)	6,098
Average maturity	0.0833	0.3333	0.5833	1.5000	2.5000	
Interest rate volatility	1.18%	1.96%	3.28%	3.06%	2.95%	
Amount at risk	\$ (5)	\$ 19	\$ 411	\$ 267	\$ (1,387)	\$ (695)

	As of December 31, 2001					
	<u>3 months or less</u>	<u>3-6 months</u>	<u>6-12 months</u>	<u>1-3 years</u>	<u>Over 3 years</u>	<u>Total</u>
	(in millions of US\$, except percentages and maturities in years)					
Foreign currency-denominated:						
Asset position	\$ 4,759	\$ 1,466	\$ 111	\$ 264	\$ 403	\$ 7,003
Liability position	4,277	1,362	223	238	370	6,470
Gap	482	104	(112)	26	33	533
Average maturity	0.0833	0.3333	0.5833	1.5000	2.5000	
Interest rate volatility	2.50%	2.53%	3.43%	2.92%	2.57%	
Amount at risk	\$ 1	\$ 1	\$ (2)	\$ 1	\$ 2	\$ 3

The Asset and Liability Management Unit in our Financial Planning Division submits interest rate gap analysis reports and duration gap analysis reports to the Financial Strategy Sub-Committee and the Risk Management Committee.

Foreign Exchange Risk

We manage foreign exchange rate risk arising from our non-trading operations together with such risks arising from our trading operations. See “—Market Risk Management for Trading Activities —Foreign Exchange Risk” above.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to disparity between inflow and outflow of funds such as maturity mismatch, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, withdrawals and pre-terminations of trust funds and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans and extend other forms of credits, as well as to make investments in securities. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities. To date, we have not experienced significant liquidity risk, including during 1997 and 1998 when the Korean economy experienced serious difficulties.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise by issuing securities when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest earning assets or securities.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), payments of loans and sales of short-term securities. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

For Won-denominated assets and liabilities, we use a cash flow structure based on holding short-term liabilities and long-term assets to manage liquidity. For the year 2001, the average initial contract maturity of our Won-denominated time deposits was seven months, while during the same period most of our new loans and securities had maturities of over one year.

We manage liquidity risk within the limits set on Won and foreign currency accounts in accordance with the regulations of the Financial Supervisory Commission. The Financial Supervisory Commission requires Korean banks to maintain a Won liquidity ratio of at least 100.0%. The Financial Supervisory Commission defines the Won liquidity ratio as Won liquid assets (including marketable securities) due within three months divided by Won liabilities due within three months. For us, however, the Financial Supervisory Commission requires that, until October 2002, we maintain a Won liquidity ratio only in excess of 90.0% and in excess of 100.0% thereafter in consideration of the fact that H&CB was required to maintain only a 70.0% or higher of Won liquidity ratio prior to the merger due to its significant exposure to long-term housing loans.

The Fund Management Team and the International Financing Team are responsible for daily liquidity risk management of our Won and foreign currency exposure, respectively. They report monthly plans for funding and asset management to the Financial Strategy Subcommittee, which discusses factors such as interest rate movements, maturity structures of our deposits, loans and securities, re-deposit ratios and loan roll-over ratios.

The following tables show our liquidity status and limits for Won and foreign currency accounts as of December 31, 2001 in accordance with the regulations of the Financial Supervisory Commission.

	<u>3 months or less</u> (in billions of Won, except percentages)		
Won accounts:			
Assets (A)			46,224
Liabilities (B)			55,549
Liquidity gap			(9,325)
Liquidity ratio (A/B)			83.21%
Limit			90.00%
	<u>7 days or less</u>	<u>7 days-1 month</u>	<u>1-3 months</u>
	(in millions of US\$, except percentages)		
Foreign currency accounts:			
Foreign currency assets	2,207	1,179	1,521
Foreign currency liabilities	1,379	1,551	1,892
Maturity gap	828	(372)	(371)
Cumulative gap (A)	828	456	85
Total assets (B)	9,645	9,645	9,645
Liquidity gap ratio (A/B)	8.58%	4.73%	101.76%(1)
Limits	—	(10.00)%	80.00%

(1) Liquidity ratios.

The Asset and Liability Management Unit in our Financial Planning Division measures our liquidity ratio and liquidity gap ratio on a monthly basis and reports whether they are in compliance with the limits to the Financial Strategy Subcommittee and the Risk Management Committee monthly and quarterly, respectively.

Operational Risk Management

Operational risk is difficult to quantify and subject to different definitions. We define our operational risk as the risk related to the overall management of our bank other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial or reputational loss. We divide our operational risk into business risks and event risks for measurement purposes with respect to our calculations of risk-adjusted return on capital.

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. The primary responsibility for ensuring compliance with our operational risk procedures remains with our various business units. In addition, our Audit Team, our Risk Management Teams, our Legal Team and our Compliance Team also play important roles in reviewing and maintaining the integrity of our internal control environment.

The Audit Committee, which consists of four non-executive directors and one executive director, is an independent inspection authority that supervises our internal controls and our observance of ethical and legal principles in addition to reviewing our financial statements. The Audit Committee performs audits of, among other matters, our overall management and accounting, and has the Audit Team as its execution body.

Our Audit Committee and Audit Team perform the following audits:

- general audits, including full-scale audits performed biannually for the overall operations, sectional audits of selected operations performed when necessary, real-time audits for selected transactions and periodic and irregular spot audits;
- special audits, performed when our Audit Committee or standing auditor deem it necessary or pursuant to requests by the chief executive officer or supervisory authorities such as the Financial Supervisory Service;
- day-to-day audits, performed by the standing auditor for material transactions or operations that are subject to approval by the heads of our business groups or senior executives;
- continuous audits, performed by our computerized audit system to analyze data and take any necessary actions; and
- self-audits, performed as a self-check by each business unit to ensure its compliance with our business regulations and policies.

The Financial Supervisory Service conducts a general audit of our operations once a year and also performs special audits as the need arises on particular aspects of our operations such as risk management, credit monitoring and liquidity.

The Audit Team initiated an internal audit restructuring program in March 2002 to establish a risk-based audit system. Our goal is to create an operational risk framework that emphasizes active management of operational risk throughout the bank. As part of this process, the Risk Strategy Team is identifying and assessing the operational risks inherent in our business as a prerequisite to establishing the new framework.

Our Compliance Team operates a compliance inspection system. This system is designed to ensure that all of our employees comply with the law. The compliance inspection system's main function is to monitor the degree of improvement in compliance with the law, maintain internal controls (including ensuring that each department has established proper internal policies and that it complies with those policies) and educate our employees about observance of the law.

We consider legal risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Changes in laws and regulations could also adversely affect us. Legal risk is higher in new areas of business where the law is often untested in the courts although legal risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. Our Legal Team seeks to minimize legal risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Our internal auditors review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court should such scrutiny occur.

We believe that the integrity of the electronic systems is crucial to our continuing operations both on a branch level and on an overall level. At the branch level, the two System Teams from the former Kookmin Bank and H&CB under the IT Division are responsible for monitoring all of our

electronic and computerized network processes to minimize operational risk as a result of system failure. The System Teams report any unusual delays and irregularities encountered by our branches in processing transactions. On an overall level, the IT Planning Team is responsible for the daily monitoring of our entire information security system.

We also have in place back-up data systems for our main systems to ensure that our operations are carried out normally and without material interruption in the event of an internal system failure. H&CB has implemented the Business Recovery System for use in the event of any problems with its systems. The Business Recovery System allows us to carry out our daily business even in the event of internal system failure by accessing a duplicate system located off-site.

After the merger, we have built upon the disaster recovery capabilities of the former Kookmin Bank's and H&CB's back-up data systems and have established a plan to centralize the systems. H&CB's system is being backed-up in a new location and the former Kookmin Bank's system will back up its data onto the H&CB system on a real time basis beginning in June 2002. We currently plan to use H&CB's IT center as our main IT center and the former Kookmin Bank's IT center as the back-up center by September 2002. In order to minimize operational risks relating to our electronic systems, we will implement Parallel Sysplex, a multi-host system which runs three host systems simultaneously on-site and ensures system continuity in case any of the three host systems fails. We believe that the implementation will enhance the capacity of our IT system and prevent any system failure or interruptions.

SUPERVISION AND REGULATION

Legal and Regulatory Framework

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

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

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

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

The Financial Supervisory Service was established on January 4, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Supervisory Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for prudent control of liquidity and for capital adequacy and establishes reporting requirements within the authority delegated to it under the Financial Supervisory Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions;
- suspensions of a part or all of business operation; or
- assignments of contractual rights and obligations relating to financial transactions.

Principal Regulations Applicable to Banks

Capital Adequacy

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

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

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

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

In April and May of 2002, the Ministry of Finance and Economy and the Financial Supervisory Commission announced that the minimum ratio of allowances for credit losses in respect of outstanding loans by banks to individuals and households would be increased to 0.75% of normal

credits, 5% of precautionary credits and 55% of doubtful credits, and the minimum ratio of allowances for credit losses in respect of their outstanding credit card receivables and credit card loans would be increased to 1% of normal credits, 7% of precautionary credits and 60% of doubtful credits. According to the announcement, the new proposed guidelines for the minimum ratio of allowances for credit losses are scheduled to become effective from July 2002.

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

Liquidity

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

In 1999, the Financial Supervisory Commission adopted a new requirement to ascertain a bank's liquidity. Starting from January 1, 1999, the Financial Supervisory Commission requires each Korean bank to maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service. The Financial Supervisory Commission also requires each Korean bank to (1) maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign-currency liabilities due within three months) of not less than 80%, (2) maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign-currency assets of not less than 0% and (3) maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign-currency assets, of not less than negative 10%. The Financial Supervisory Commission also requires each Korean bank to submit monthly reports with respect to maintenance of these ratios.

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

Financial Exposure to Any Individual Customer and Major Stockholders

Under the "Ceiling System on the Sum of Large Exposures" introduced in December 1994, the sum of large exposures by a bank, that is, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital

deductions), must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). Beginning on April 1, 1999, the limit on a bank's ratio of large exposures has been reduced from 15% to 10% of the sum of Tier I and Tier II capital (less any capital deductions). Beginning on January 1, 2000, subject to certain exceptions, no bank is permitted to extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and such other transactions which directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, and no bank may grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act. In addition, banks are prohibited from extending credits in an amount greater than the lesser of (i) 25% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) or (ii) the relevant shareholder's (together with persons who have a special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act) shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions), to a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act), in the aggregate, in excess of 10% (or in the case of regional banks, 15%) of the bank's total issued voting shares.

As a result of a recent amendment to the Bank Act, which is expected to go into effect on July 28, 2002, the restrictions on extending credits to a major shareholder will increase. The definition of a "major shareholder" is as follows:

- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act) an excess of 10% (or in the case of regional banks, 15%) in the aggregate of the bank's total issued voting shares; or
- a shareholder holding (together with persons who have a special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act) more than 4% in the aggregate of the bank's (excluding regional banks) total issued voting shares (excluding shares relating to the shareholding restrictions on non-financial group companies, which include:
 - (1) any same shareholder group with an aggregate stockholders' equity of all non-financial companies belonging to such group of not less than 25% of the aggregate stockholders' equity of all members that are corporations of such group;
 - (2) any same shareholder group with aggregate assets of all non-financial companies belonging to such group of not less than ₩2 trillion; or
 - (3) any mutual fund in which a same shareholder group identified in (i) or (ii) above, owns more than 4% of the total shares issued and outstanding),

where such shareholder is the largest shareholder or is able to control the major business affairs of the bank through appointment and dismissal of the chief executive officer or of the majority of the executives, or is deemed to be a controlling shareholder by the Financial Supervisory Commission.

According to the amendment, banks will be prohibited from extending credits in the amount greater than the lesser of (i) the rate provided in the Enforcement Decree of the Bank Act within the limit of 25% of the sum of such bank's Tier I and Tier II capital (less any capital deductions) and (ii) the relevant major shareholder's shareholding ratio multiplied by the sum of the bank's Tier I and Tier II capital (less any capital deductions) to a major shareholder (together with persons who have special relationship with such shareholder as defined in the Enforcement Decree of the Bank Act). Also, no bank will be allowed to grant credit to its major stockholders in excess of the amount in aggregate determined in accordance with the rate provided in the Enforcement Decree of the Bank Act within the limit of 25% of its Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks remain dependent on the acceptance of deposits as their primary source of funds. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Board of the Bank of Korea. Under the government's Financial Reform Plan issued in May 1993, controls on deposit interest rates in Korea have been gradually reduced. Restrictions were removed in stages with respect to interest rates on most time deposits and savings deposits in 1994 and 1995. In July 1997, restrictions on all interest rates, except demand deposits, were removed. As a result of the government's deregulation program, the interest income generated by our loan portfolio and the interest expense resulting from deposits are determined to a greater extent than in the past by market interest rates and Bank of Korea monetary policy, including deposit reserve requirements. Deregulation of interest rates on deposits has increased competition for deposits based on interest rates offered and therefore may increase our interest expense.

Lending to Small- and Medium-Sized Enterprises

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

Disclosure of Management Performance

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

- (1) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to such borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits) except where the loan exposure to a single business group is not more than ₩4 billion;
- (2) any financial incident involving embezzlement, malfeasance or misappropriation of funds the amount of which exceeds 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) occurs, unless the bank has lost or expects to lose not more than ₩1 billion as a result thereof, or the Governor of the Financial Supervisory Service has made a public announcement regarding such an occurrence; and
- (3) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank's Tier I and Tier II capital (less any capital deductions) as of the end of the previous month except where the loss is not more than ₩1 billion.

Restrictions on Lending

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

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

- loans made directly or indirectly on the pledge of a bank's own shares, or on the pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);
- loans made directly or indirectly to enable a natural or juridical person to buy the bank's own shares;
- loans made directly or indirectly to finance political campaigns and other activities;
- loans made to any of the bank's officers or employees other than petty loans of up to (1) ₩20 million in the case of a general loan, (2) ₩50 million in the case of a general loan plus a housing loan, or (3) ₩60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;
- credit (including loans) provided on the pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; and
- loans made to any officers or employees of a subsidiary corporation of the bank other than petty loans of up to ₩20 million in the case of a general loan or ₩50 million in the aggregate in the case of general and housing loans.

Restrictions on Investments in Property

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

Restrictions on Shareholdings in Other Companies

Generally, banks may not own shares of another banking institution. Under the amended Bank Act which will become effective on July 28, 2002, such restrictions against banks owning shares in other financial institutions will be abolished. In principle, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except, among other reasons, (1) where the corporation issuing such shares is engaged in a category of businesses set forth by the Financial Supervisory Commission or where the acquisition of shares by the bank is necessary for the corporate restructuring of the issuer and is approved by the Financial Supervisory Commission and (2) where the total investment in corporations in which the bank owns more than 15% of the outstanding share with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions) or where the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

According to a recent amendment to the Bank Act, which is expected to become effective on July 28, 2002, a bank and its trust accounts will not be permitted to acquire the shares of another corporation issued by a major shareholder of such bank in excess of an amount determined in accordance with the rate provided in the Enforcement Decree of the Bank Act. The threshold amount will be within 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, subject to certain exceptions, a single shareholder and persons who stand in a special relationship with such shareholder (as described in the Enforcement Decree to the Bank Act) may acquire beneficial ownership of up to 4% of a nationwide bank's total issued and outstanding shares with voting rights and up to 15% of a regional bank's total issued and outstanding shares with voting rights. The government, the Korea Deposit Insurance Corporation and bank

holding companies qualifying under the Financial Holding Company Act are not subject to such ceilings. The ceilings do not apply to the following:

(1) the acquisition of a bank's shares by a foreigner, as defined in the Foreign Investment Promotion Act, that satisfies certain requirements provided in the Enforcement Decree of the Bank Act, in which case such foreigner must report to the Financial Supervisory Commission when such foreigner acquires more than 4% and up to 10% of a nationwide bank's total issued and outstanding shares with voting rights and must obtain an approval from the Financial Supervisory Commission in each instance where the total holdings of the bank's shares by such foreigner exceeds 10% (in the case of a regional bank, 15%), 25% or 33% of a bank's total issued and outstanding shares with voting rights;

(2) the acquisition of a bank's shares by any persons or legal persons of Korea ("Korean nationals") as defined in the Foreign Investment Promotion Act, up to the number of shares (if any) which a foreign investor is allowed to acquire by report to or approval from the Financial Supervisory Commission, provided that Korean nationals are subject to the same procedure as those applicable to the foreigner (i.e. a report to or an approval from the Financial Supervisory Commission); and

(3) the acquisition of the shares of a bank, at the time of establishment, established by a foreigner, pursuant to the Enforcement Decree to the Bank Act, in which case such foreigner must obtain the approval from the Financial Supervisory Commission.

A recent amendment to the Bank Act, which is expected to become effective on July 28, 2002, will increase the current 4% limit on the beneficial ownership of a Korean bank's total issued and outstanding voting shares to 10%. However, select non-financial group companies (i.e., (i) any same shareholder group with an aggregate stockholders' equity of all non-financial companies belonging to such group of not less than 25% of the aggregate stockholders' equity of all members that are corporations of such group, (ii) any group with aggregate assets of all non-financial companies belonging to such group of not less than ₩2 trillion or (iii) any mutual fund in which a same shareholder group, as described in items (i) and (ii) above, owns more than 4% of the total shares issued and outstanding) may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of such bank's outstanding voting shares, provided that such non-financial group companies may acquire beneficial ownership of:

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

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

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

Deposit Insurance System

The Depositor Protection Act provides, through a deposit insurance system, insurance for certain deposits ("insurable deposits") of banks in Korea. Under the Depositor Protection Act, all

banks governed by the Bank Act, including us, are required to pay to the Korea Deposit Insurance Corporation an insurance premium on a quarterly basis at such rate as determined by the Presidential Decree to the Depositor Protection Act, which shall not exceed 0.5% of the bank's insurable deposits in any given year. The current insurance premium is 0.025% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation pays the insured amount, it will acquire the claims of the depositors within the payment amount. Under current rules, the Korea Deposit Insurance Corporation insures only up to a total of ₩50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. However, the maximum limit of ₩50 million is not applicable to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003.

Restrictions on Foreign Exchange Position

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

Credit Card Business

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

In April and May of 2002, the Financial Supervisory Commission and the Ministry of Finance and Economy announced plans, through proposed amendments to relevant laws and regulations which are expected to be effective on July 1, 2002, to:

- require credit card issuers to reduce their lending volumes (including cash advances and credit card loans and, from the fourth quarter of 2004, including for purposes of the calculation loan-related receivables sold through asset securitization transactions) to less than 50% of their aggregate quarterly average outstanding credit card balance by the fourth quarter of 2003;
- require credit card issuers to retool their credit scoring systems to better address the credit risks of their customers;
- require credit card issuers to lower the interest rate on cash advances to the level of the industry's leading credit card companies and to improve the member classification system so that cardholders receive more diversified credit grades; and
- require credit card issuers to set credit limits for cardholders by taking into account their creditworthiness and strengthen the Korean GAAP loan loss provisioning guidelines applicable to banks with credit card operations.

Trust Business

A bank wishing to enter into the trust business must obtain the approval of the Financial Supervisory Commission. Trust activities of banks are governed by the Trust Act and Trust Business

Act. Banks engaged in the banking business and trust business are subject to certain legal and accounting procedures requirements, including the following:

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

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

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

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

Laws and Regulations Governing Other Business Activities

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

Financial Impact of the Merger

Under U.S. GAAP, we accounted for the merger under the purchase method of accounting, with the former Kookmin Bank being the acquiring entity for accounting purposes. Our results of operations for the year ended December 31, 2001 include the operations of H&CB from November 1, 2001. The results of operations of the former Kookmin Bank for the years ended December 31, 1999 and 2000 to which these figures are compared herein do not reflect any adjustment for H&CB. In addition, our assets and liabilities and stockholders' equity at December 31, 2001 fully reflect the merger while the comparable figures of the former Kookmin Bank at December 31, 2000 to which they are compared in this document have not been adjusted. You should consider the following discussion and analysis with these facts in mind. See "Item 4. Information on the Company—History and Development of the Company" and "Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data" for additional information regarding the merger.

We recorded the assets and liabilities of H&CB at fair value as summarized in "Unaudited Pro Forma Combined Statement of Income Data." The total fair value of the assets we acquired was ₩68,347 billion, and the total fair value of the liabilities we assumed was ₩64,858 billion. We also recorded two intangible assets: one related to core deposit relationships and the other related to credit card relationships amounting to ₩670 billion and ₩222 billion, respectively, before the allocation of negative goodwill as discussed below. The core deposit intangible asset reflects the value of the acquired base of demand and savings deposit accounts of H&CB which we can expect to maintain for an extended period because of generally stable customer relationships. This intangible asset will be amortized in proportion to the estimated run-off of depositors on an accelerated basis over a weighted average life of approximately eight years. The credit card relationship intangible asset reflects the value of the acquired credit card relationships of H&CB. This intangible asset will be amortized on an accelerated basis over a weighted average life of approximately six years.

For accounting purposes, the purchase price for H&CB was ₩2,945 billion, representing the sum of the market value of our common stock issued to H&CB's stockholders of ₩2,897 billion (calculated based on the average of the closing prices of the former Kookmin Bank's common stock on the Korea Stock Exchange during the period two days before and after April 23, 2001, the date of the merger agreement) and acquisition expenses of ₩48 billion. The excess of the fair value of H&CB's net assets amounted to ₩544 billion and represented negative goodwill, which we allocated on a pro rata basis to premises and equipment and two intangible assets acquired. See "Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data."

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. For example, consumer loans, including credit card balances, as a percentage of total loans increased from 41.3% as of December 31, 2000 to 63.9% as of December 31, 2001. This increase was in large part attributable to the merger, as a result of which we acquired (prior to deducting allowance for loan losses) ₩21,768 billion of mortgage loans, ₩15,100 billion of installment loans to individuals and other consumer loans and ₩4,222 billion of credit card balances, compared to ₩6,179 billion of commercial and industrial loans. Due to the increase in the amount and relative proportion of our consumer loans, including credit card balances,

as well as in the amount of our retail deposits, resulting from the merger, our exposure to economic changes affecting the consumer sector in Korea and the relative importance of that sector to our business, results of operations and financial condition have increased significantly.

The Korean Economy

Our financial position and recent results of operations have been and continue to be significantly impacted by financial and economic conditions in Korea. As part of the Korean government's structural reform program, which stemmed from the economic difficulties in 1997 and 1998, there have been certain significant changes in regulations specifically affecting financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity and minimum capital requirements.

From 1999 to 2001, financial and economic conditions improved in Korea. The general level of interest rates decreased, consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, the Korean government's structural reforms have not been fully implemented and the large corporate sector of the economy is still experiencing significant difficulties. In addition, as interest rates in Korea have started to increase commencing in 2002, concerns have been raised regarding the high levels of consumer borrowing and credit card usage and the possibility of a deterioration in the retail lending and credit card portfolios of Korean financial institutions. See "Item 3. Key Information—Risk Factors—Risks relating to our retail credit portfolio."

Changes in Securities Values, Exchange Rates and Interest Rates

Exchange rates, interest rates and stock prices have fluctuated significantly in Korea in recent years. The following table shows for the dates indicated, the stock price index of all equities listed on the Korea Stock Exchange as published in the Korea Composite Stock Price Index (known as "KOSPI"), the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates for the periods indicated.

	<u>June 30,</u> <u>1998</u>	<u>Dec. 31,</u> <u>1998</u>	<u>June 30,</u> <u>1999</u>	<u>Dec. 31,</u> <u>1999</u>	<u>June 30,</u> <u>2000</u>	<u>Dec. 31,</u> <u>2000</u>	<u>June 30,</u> <u>2001</u>	<u>Dec. 31,</u> <u>2001</u>	<u>May 31,</u> <u>2002</u>
KOSPI	297.88	562.46	883.00	1,028.07	821.22	504.62	595.13	693.70	796.40
₩/US\$ exchange rates (1) ..	1,376	1,206	1,158	1,136	1,115	1,267	1,303	1,314	1,219
Corporate bond rates (2) . . .	18.00%	8.00%	7.96%	9.95%	9.37%	8.27%	7.25%	7.04%	6.90%
Treasury bond rates (3)	14.00%	6.95%	7.20%	9.03%	8.31%	6.70%	5.93%	5.91%	6.14%

(1) Noon buying rate.

(2) Measured by the yield on three-year AA- rated corporate bonds, as rated by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain.

These critical accounting policies are addressed below.

Allowance for Loan Losses

We evaluate our loan portfolio for impairment on an ongoing basis. We have established an allowance for loan losses, which is available to absorb the losses that we estimate we will incur in our loan portfolio as of the balance sheet date. If we believe that additions to the allowance for loan losses are required, then we record provisions for loan losses, which is treated as a charge against current income. Credit exposures that we deem to be uncollectable and loan losses, net of recoveries of previously charged-off amounts, are charged directly against the allowance for loan losses.

We base the level of our allowance for loan losses on an evaluation of the risk characteristics of our loan portfolio. We consider factors such as historical loss experience, the financial condition of the borrowers and current economic conditions. We evaluate corporate loans and consumer loans in different ways, due to their respective characteristics, as follows:

- We generally evaluate impaired corporate loans individually, due to the unique characteristics of the individual corporate borrowers. We establish an allowance for loan losses for each individual impaired corporate loan. As described in more detail in our consolidated financial statements, we consider a loan impaired when, after consideration of risk characteristics and current information and events, we believe it is probable that we will be unable to collect all amounts owed under the contractual terms of the agreement, including principal and interest. Once we have identified a loan as impaired, we value that loan either based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If resulting value is less than the carrying value of the loan, we establish a specific allowance for the amount deemed uncollectable.

We also establish an allowance for loan losses for corporate loans which we do not believe are impaired. This allowance is established for the aggregate pool of these loans based upon our historical loss experience for these types of loans.

- We establish the allowance for loan losses related to leases based on historical loss experience.
- We generally evaluate consumer loans and certain smaller balance corporate loans, including mortgages and home equity loans and credit card balances, as individual pools for loan loss reserve purposes due to their homogeneous nature based on historical loss experience.

Factors that management considers when establishing reserves for homogeneous pools of corporate and consumer loans include, but are not limited to, global and local economic events, delinquencies and changes in underwriting and credit monitoring policies.

We believe that the accounting estimate related to our allowance for loan losses is a "critical accounting policy" because: (1) it is highly susceptible to change from period to period because it requires us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated loan losses (as reflected in our allowance for loan losses) and actual loan losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2001 included a total loan loss allowance of ₩3,612 billion as of that date (including allowances with respect to guarantees and acceptances). Our total loan charge-offs, net of recoveries, amounted to ₩1,437 billion and our provision for losses on loans, guarantees and acceptances amounted to ₩1,255 billion in 2001.

Valuation of Securities and Financial Instruments

We invest in various financial instruments including debt and equity securities, derivatives and investments in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value is required to determine the instrument's effect on our consolidated financial statements.

- *Trading assets and liabilities:* Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading liabilities include "short" positions, which are obligations to deliver securities not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis, with changes in fair value recognized in net trading revenue as they occur. Trading assets and liabilities also include derivatives and foreign exchange contracts used for trading purposes as well as those used for other than trading purposes that do not qualify for hedge accounting all of which are carried at fair value. We recognize changes in the fair value of trading derivatives and foreign exchange contracts in net trading revenue as they occur.
- *Debt and marketable equity securities:* We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminate period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Available-for-sale securities are reported at fair value, which is based on quoted market prices. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders' equity. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of the related loss in earnings.

We carry our investments in held-to-maturity debt securities at amortized cost if we intend and have the ability to hold them to maturity. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other than temporary result in write-downs of the securities to their fair value.

- *Nonmarketable equity securities:* For equity securities that do not have readily determinable marketable values, we carry such securities at cost, with any other-than-temporary impairment recorded in earnings. The fair values of nonmarketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost, or other reference events. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments.
- *Investments in venture capital activities:* Certain of our subsidiaries engage exclusively in venture capital activities. Venture capital investments are carried on the balance sheet at fair value with net changes in fair value recognized as noninterest income or expense. The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by these subsidiaries that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date we estimate fair value based on investee transactions with unaffiliated parties, or based on our review of the investee's financial results and condition. Any changes to these assumptions could significantly affect the fair values of such investments.

If available, quoted market prices provide the best indication of fair value. The fair value of our securities and financial instruments is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair values calculated based on pricing and valuation models or the discounted cash flow analyses are subject to various

assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions, among other things, relate to discount rates, cash flows and certain modeling techniques.

Factors considered in determining whether declines in value are other than temporary include the length of time and extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, our intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the state of the Korean economy (domestic securities only). Any changes in these assumptions could significantly affect the valuation and timing of recognition of an other than temporary impairment.

We believe that the accounting estimates related to the fair market value of our various securities is a “critical accounting policy” because: (1) it may be highly susceptible to change from period to period based on factors beyond our control and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Intangible Assets Acquired

We acquired core deposit and credit card relationship intangible assets upon our merger with H&CB. These intangible assets were recorded at their estimated fair values. The core deposit intangible asset reflects the value of the base of demand deposits and savings accounts acquired, which we can expect to maintain for an extended period because of generally stable customer relationships. The fair value of this asset was based principally upon the estimates of (1) the funding benefits that these deposits provide relative to our alternative funding sources and (2) the projected run-off of the related customer accounts. The credit card relationship intangible asset reflects the value of the credit card relationships acquired from which we expect to derive future benefits over the estimated life of such relationships. The fair value of this asset was based principally upon the estimates of (1) the profitability of the acquired accounts and (2) the projected run-off of the acquired accounts. They will be amortized over their estimated useful lives ranging from approximately six to eight years on an accelerated basis. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangibles.

We believe that the accounting estimates related to the fair market value of our acquired intangible assets is a “critical accounting policy” because: (1) they may be highly susceptible to change from period to period because they require assumptions about future run-off rates and profitability and (2) any significant difference between our estimated run-off rates and profitability and the actual amounts could result in valuation losses which may have a material impact on our net income. Our assumptions about estimated run-off rates and profitability require significant judgment because these are newly acquired intangible assets, the values of which could fluctuate in the future based on a variety of factors.

Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of our net interest income.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won, except percentages)			(% change)	
Interest and dividend income					
Loans, including fees (1)	₩4,552	₩5,267	₩7,089	15.7%	34.6%
Trading assets	127	183	173	44.1	(5.5)
Investment securities	1,589	1,653	1,545	4.0	(6.5)
Call loans and securities purchased under resale agreements	37	55	101	48.6	83.6
Deposits	179	199	66	11.2	(66.8)
Total interest and dividend income	6,484	7,357	8,974	13.5	22.0
Interest expense					
Deposits	2,613	3,036	3,538	16.2	16.5
Call money	69	62	41	(10.1)	(33.9)
Other borrowed funds	268	341	558	27.2	63.6
Secured borrowings	24	59	297	145.8	403.4
Long-term debt	1,524	1,142	926	(25.1)	(18.9)
Total interest expense	4,498	4,640	5,360	3.2	15.5
Net interest income	₩1,986	₩2,717	₩3,614	36.8%	33.0%
Net interest margin (2)	3.01%	3.57%	3.58%		

(1) Fees primarily include annual fees on credit cards.

(2) The ratio of net interest income to average interest earning assets. See "Item 3. Key Information—Selected Consolidated Financial Data—Profitability ratios and other data."

Comparison of 2001 to 2000

Interest and dividend income. Interest and dividend income increased 22.0% from ₩7,357 billion in 2000 to ₩8,974 billion in 2001, primarily due to a 34.6% increase in interest and fees on loans. The average balance of our interest earning assets increased 32.7% from ₩76,138 billion in 2000 to ₩101,069 billion in 2001, principally as a result of the merger with H&CB, which more than offset a decline in average yields from 9.66% in 2000 to 8.88% in 2001.

The 34.6% increase in interest and fees on loans from ₩5,267 billion in 2000 to ₩7,089 billion in 2001 was primarily the result of:

- a 80.1% increase in average volume of credit card balances, primarily in cash advances and credit card loans, from ₩5,518 billion in 2000 to ₩9,938 billion in 2001, partially offset by a decline of 154 basis points in average yields on credit card balances from 17.80% in 2000 to 16.26% in 2001;
- a 18.6% increase in average volume of commercial and industrial loans from ₩27,375 billion in 2000 to ₩32,463 billion in 2001;
- a 70.8% increase in average volume of consumer loans other than mortgage and home equity loans from ₩7,176 billion in 2000 to ₩12,258 billion in 2001, partially offset by a decline of 156 basis points in average yields on such loans from 11.30% in 2000 to 9.74% in 2001; and
- a 83.4% increase in average volume of mortgage and home equity loans from ₩7,081 billion in 2000 to ₩12,988 billion in 2001, partially offset by a decline of 205 basis points in average yields on such loans from 10.87% in 2000 to 8.82% in 2001.

The average volume of our loans increased principally as a result of (1) the merger with H&CB and (2) increased retail loan and credit card demand as economic conditions, and therefore consumer demand, in Korea improved. As a result of the merger, we acquired loans of H&CB (prior to deducting allowance for loan losses) in the aggregate amount of ₩50,723 billion, including ₩4,222 billion of credit card balances, ₩6,179 billion of commercial and industrial loans, ₩21,768 billion of mortgage loans and ₩15,100 billion of installment loans to individuals and other consumer loans as of November 1, 2001. The impact of these loans will, accordingly, be much greater on our results for 2002. Our average volume growth in credit card balances, mortgage and home equity loans and other consumer loans also reflected our increased effort to market these consumer loan products and, in the case of credit card balances, government incentives to promote credit card usage. Our average yield on loans decreased from 10.14% to 9.70% principally as a result of the decline in the general levels of interest rates in Korea from 2000 to 2001.

Interest income from our deposits with other financial institutions declined 66.8% from ₩199 billion in 2000 to ₩66 billion in 2001. This decline resulted from both a decline in the average volume of such deposits from ₩2,898 billion in 2000 to ₩1,078 billion in 2001, and an 84 basis point decline in average yields on such deposits from 6.87% in 2000 to 6.03% in 2001. The decline in the average volume of such deposits resulted primarily from our redeployment of these assets to provide loans to retail customers in response to higher consumer credit demand.

Our securities portfolio consists primarily of investment securities, of which 66.1% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2001. Interest and dividends on investment securities decreased 6.5% from 1,653 billion in 2000 to ₩1,545 billion in 2001. This decrease was primarily due to a 204 basis point decline in average yields on investment securities from 9.33% in 2000 to 7.29% in 2001 reflecting the lower interest rate environment, which was partially offset by a 19.7% increase in the average volume of investment securities from ₩17,720 billion in 2000 to ₩21,202 billion in 2001 primarily as a result of the merger with H&CB.

Interest Expense. Interest expense increased 15.5% from ₩4,640 billion in 2000 to ₩5,360 billion in 2001, primarily due to a 16.5% increase in interest expense on deposits, a 403.4% increase in interest expense on secured borrowings and a 63.6% increase in interest expense on other borrowed funds, partially offset by a 18.9% decrease in interest expense on long-term debt. The average balance of our interest bearing liabilities increased 33.2% from ₩70,597 billion in 2000 to ₩94,003 billion in 2001, principally as a result of increased deposits and the merger with H&CB, which more than offset a decline in average cost from 6.57% in 2000 to 5.70% in 2001.

The 16.5% increase in interest expense on deposits from ₩3,036 billion in 2000 to ₩3,538 billion in 2001 was primarily the result of a 34.6% increase in the average volume of interest bearing deposits from ₩49,535 billion in 2000 to ₩66,656 billion in 2001. This increase consisted mostly of:

- a 24.6% increase in average volume of time deposits (other than certificates of deposit) from ₩26,660 billion in 2000 to ₩33,231 billion in 2001;
- a 48.1% increase in average volume of savings deposits from ₩15,976 billion in 2000 to ₩23,665 billion in 2001; and
- a 54.8% increase in the average volume of mutual installment deposits from ₩4,676 billion in 2000 to ₩7,238 billion in 2001.

These average volume increases were primarily attributable to our increased marketing efforts and the tendency of retail customers in Korea to deposit their money in banks perceived as stronger,

like us, and to the merger with H&CB. As a result of the merger, we acquired deposits of H&CB in the aggregate amount of ₩51,861 billion, including time deposits (other than certificates of deposit) of ₩32,382 billion, savings deposits of ₩1,593 billion and mutual installment deposits of ₩5,753 billion as of November 1, 2001. The impact of these deposits will, accordingly, be much greater on our results for 2002. The increase in interest expense as a result of increased average deposits was partially offset by a decrease in the average cost of interest bearing deposits due to the general decline in market interest rates in Korea from 2000 to 2001. The average interest rate paid on our time deposits (other than certificates of deposit), which accounted for 35.4% of our average interest bearing liabilities in 2001, decreased from 7.69% in 2000 to 7.21% in 2001. The average interest rate paid on our savings deposits, which accounted for 25.2% of our average interest bearing liabilities in 2001, decreased from 2.74% in 2000 to 1.88% in 2001.

The 403.4% increase in interest expense on secured borrowings from ₩59 billion in 2000 to ₩297 billion in 2001 was primarily the result of an increase in the average volume of such borrowings. Under U.S. GAAP, transfers of assets through securitizations where control of the assets has not been surrendered are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings. The average volume of secured borrowings increased 365.5% from ₩795 billion in 2000 to ₩3,701 billion in 2001, principally as a result of new asset securitization transactions we entered into in 2001, as well as the merger with H&CB.

The 63.6% increase in interest expense on other borrowed funds from ₩341 billion in 2000 to ₩558 billion in 2001, which consist primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts, was due to an increase in the average volume of such borrowings, partially offset by a decrease in the average interest rate paid with respect to such borrowings. The average volume of such borrowings increased 86.0% from ₩4,941 billion in 2000 to ₩9,192 billion in 2001, primarily due to a reclassification of one-year debentures (which were classified as long-term debentures until 2000) as short-term debentures and, to a lesser extent, the merger with H&CB. The average interest rates paid on such borrowings decreased from 6.90% in 2000 to 6.07% in 2001 due primarily to the general decline in market interest rates in Korea.

Interest expense on long-term debt decreased 18.9% from ₩1,142 billion in 2000 to ₩926 billion in 2001 principally as a result of a decrease in the average cost of our long-term debt. The average interest rate paid on our long-term debt decreased from 8.09% in 2000 to 6.89% in 2001 as we replaced maturing long-term debt with lower cost long-term debt. Despite the merger with H&CB, the average volume of our long-term debt decreased to ₩13,463 billion in 2001 from ₩14,112 billion in 2000 because we replaced a portion of our maturing long-term debt with funding from other sources such as deposits, as well as due to the reclassification of one-year debentures as described above.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin remained relatively constant at 3.57% for 2000 compared to 3.58% for 2001. Net interest income increased 33.0% from ₩2,717 billion in 2000 to ₩3,614 billion in 2001. The average volume of our interest earning assets increased 32.7% from ₩76,138 billion in 2000 to ₩101,069 billion in 2001. While our asset growth during 2001 occurred largely in the higher margin retail and credit card segments, the positive effect of this segmental shift on our overall margin was offset by significant declines in the average yield on our rate sensitive investment securities and mortgage and home equity loan portfolios and, to a lesser extent, by average yield declines on our other retail and credit card portfolios, all of which reflected the general decline in market interest rates in Korea from 2000 to 2001. The full effect of the impact of the segmental shift to retail and credit card segments associated with the merger with H&CB will be realized in 2002.

Comparison of 2000 to 1999

Interest and dividend income. Interest and dividend income increased 13.5% from ₩6,484 billion in 1999 to ₩7,357 billion in 2000, primarily due to a 15.7% increase in interest and fees on loans and, to a lesser extent, an increase in interest and dividends on securities. These increases principally reflected a 15.5% increase in the average balance of interest earning assets, mostly loans and securities, from ₩65,932 billion in 1999 to ₩76,138 billion in 2000, which more than offset a decline in average yields from 9.83% in 1999 to 9.66% in 2000.

The 15.7% increase in interest and fees on loans from ₩4,552 billion in 1999 to ₩5,267 billion in 2000 was primarily the result of:

- a 98.1% increase in average volume of credit card balances, from ₩2,786 billion in 1999 to ₩5,518 billion in 2000, partially offset by a decline of 198 basis points in average yields on credit card balances from 19.78% in 1999 to 17.80% in 2000;
- a 37.1% increase in average volume of mortgage and home equity loans from ₩5,166 billion in 1999 to ₩7,081 billion in 2000, partially offset by a decline of 138 basis points in the average yield on such loans from 12.25% in 1999 to 10.87% in 2000; and
- a 15.5% increase in average volume of commercial and industrial loans from ₩23,706 billion in 1999 to ₩27,375 billion in 2000, partially offset by a decline of 78 basis points in the average yield on such loans from 9.04% in 1999 to 8.26% in 2000.

The average volume of our loans increased as a result of (1) increased loan demand as economic conditions, and therefore consumer demand, in Korea improved and (2) increased funding from our deposit sources, as many people withdrew their deposits from banks and other financial institutions they perceived as weaker and made deposits with banks they perceived as stronger, such as ourselves, providing us with the opportunity to increase our lending volume. Our average volume growth in credit card balances and mortgage and home equity loans were primarily due to our increased efforts to market these consumer loan products. The increase in mortgage and home equity loans also reflected the trend and preference by commercial banks, including ourselves, to lend on a secured basis. The average volume growth in commercial and industrial loans resulted mainly from our increased efforts to market loans to small- and medium-sized enterprises pursuant to our marketing campaigns in 2000 as well as an increase in large corporate lending, including to low-risk government-controlled entities such as the Korea Deposit Insurance Corporation. Our average yield on loans decreased from 10.74% to 10.14% as a result of the decline in the general levels of interest rates in Korea from 1999 to 2000 and a decrease in lending rates as competition among banks intensified.

Our securities portfolio consisted primarily of investment securities, of which 73.4% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2000. Interest and dividends on investment securities increased 4.0% from ₩1,589 billion in 1999 to ₩1,653 billion in 2000. This increase was primarily due to an increase in average volume of investment securities from ₩16,228 billion in 1999 to ₩17,720 billion in 2000, partially offset by a decline in average yields on our investment securities from 9.79% in 1999 to 9.33% in 2000. The increase in the average volume of investment securities was primarily due to the fact that our funding increased in 2000 due to an increase in deposits and we used a portion of these funds to increase our investment in investment securities. The principal reason for the decline in average yields on these investment securities was the general decline in market interest rates in Korea from 1999 to 2000.

Interest Expense. Interest expense increased 3.2% from ₩4,498 billion in 1999 to ₩4,640 billion in 2000, principally as a result of a 16.2% increase in interest expense on deposits from ₩2,613 billion in 1999 to ₩3,036 billion in 2000, which was substantially offset by a 25.1% decrease in interest expense on long-term debt from ₩1,524 billion in 1999 to ₩1,142 billion in 2000.

The 16.2% increase in interest expense on deposits was primarily the result of the impact of a 28.6% increase in the average volume of interest bearing deposits from ₩38,511 billion in 1999 to ₩49,535 billion in 2000. This increase consisted mostly of:

- a 24.0% increase in the average volume of time deposits (other than certificates of deposit) from ₩21,493 billion in 1999 to ₩26,660 billion in 2000;
- a 29.3% increase in the average volume of savings deposits from ₩12,358 billion in 1999 to ₩15,976 billion in 2000;
- a 141.4% increase in the average volume of certificates of deposit from ₩778 billion in 2000 to ₩1,878 billion in 2001; and
- a 30.8% increase in the average volume of mutual installment deposits from ₩3,575 billion in 1999 to ₩4,676 billion in 2000.

The increase in average deposits was primarily attributable to (1) the recent difficulties in the Korean financial sector which led many people to withdraw their deposits from financial institutions they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves, and (2) the changes in regulations that allowed commercial banks to offer housing subscription time deposits previously offered only by H&CB, 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. The Housing Construction Promotion Law provides various measures supporting the purchase of houses and the supply of such houses by construction companies. The increase in interest expense as a result of increased average deposits was partially offset by a decrease in the average cost of interest bearing deposits due to the general decline in market interest rates in Korea from 1999 to 2000. The average interest rate paid on our time deposits (other than certificates of deposit), which accounted for 37.8% of our average interest bearing liabilities in 2000, decreased from 8.66% in 1999 to 7.69% in 2000. The average interest rate paid on our savings deposits, which accounted for 22.6% of our average interest bearing liabilities in 2000, decreased from 2.96% in 1999 to 2.74% in 2000. The average interest rate paid on our mutual installment of deposit, which accounted for 6.6% of our average interest bearing liabilities in 2000, decreased from 9.12% in 1999 to 8.77% in 2000.

The 25.1% decrease in interest expense on long-term debt was the result of decreases in both average volume and rate. The average balance of long-term debt decreased by 19.9% from ₩17,614 billion in 1999 to ₩14,112 billion in 2000 as a result of increased funding from other sources such as deposits. In addition, as interest rates decreased, we replaced maturing long-term debt with lower cost long-term debt.

Interest expense on other borrowed funds, which consists primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts, increased 27.2% from ₩268 billion in 1999 to ₩341 billion in 2000. The increase in interest expense on other borrowings was due to an increase in the average volume of such borrowings except for borrowings from the Bank of Korea and the increase in average interest rate paid on short-term foreign currency borrowings. The increase in average volume of such borrowings was primarily due to the increase in the average balance of short-term borrowings by Kookmin Credit Card in order to fund the expansion of our credit card operations. In 2000, the interest rates payable on foreign currency borrowings from the Bank of Korea increased in connection with the increase in interest rates in the United States. As a result, we repaid most of these borrowings in 2000. The interest rates payable on short-term foreign currency borrowings increased in 2000 due primarily to the increase in interest rates in the United States.

Net interest margin. Our net interest margin increased from 3.01% in 1999 to 3.57% in 2000 as a result of a 36.8% increase in net interest income from ₩1,986 billion in 1999 to ₩2,717 billion

in 2000, primarily due to an increase in our interest and dividend income, while our interest expense remained relatively constant. The increase in interest and dividend income in 2000 was a result of the increase in the average volume of our interest earning assets, partially offset by a decline in average interest rates on such assets. Despite the increase in the average balance of our interest bearing liabilities, our interest expense only increased 3.2% as a result of a decline in average interest rates on such liabilities, as well as the decreased average volume of long-term debt. The average balance of our interest earning assets, on the other hand, increased by 15.5% from ₩65,932 billion in 1999 to ₩76,138 billion in 2000.

Provision for Loan Losses

For a discussion of our loan loss provisioning policy, see “Item 4. Information on the Company—Assets and Liabilities—Loan Portfolio—Provisioning Policy.”

Comparison of 2001 to 2000

Our provision for loan losses increased from ₩262 billion in 2000 to ₩1,264 billion in 2001 as a result of:

- higher provisions in respect of our credit card portfolio due to the growth in outstanding credit card balances as well as a deterioration in the quality of our existing credit card portfolio; and
- increased provisions in respect of our corporate loan portfolio due in large part to the continued deterioration of previously identified impaired loans.

Our loan charge-offs, net of recoveries, increased 177.9% from ₩517 billion in 2000 to ₩1,437 billion in 2001. Of the ₩920 billion increase, ₩493 billion and ₩306 billion represented increases in net charge-offs of corporate loans and outstanding credit card balances, respectively. Our charge-offs of corporate loans increased due to the further deterioration of the credit quality of our exposures to several large corporate borrowers relating to specific events occurring in 2001. Our most significant charge-offs related to Hynix Semiconductor and former member companies of the Daewoo Group. Even after such higher net charge-offs, impaired corporate loans increased slightly from ₩5,527 billion as of December 31, 2000 to ₩5,605 billion as of December 31, 2001, primarily as a result of the merger with H&CB. Similarly, even after such net charge-offs, significant increases in credit card balances, particularly cash advances and credit card loans, widespread concern regarding the rapid increase of credit card debt in Korea, and increased overdue balances in our credit card portfolio, which increased 13.7% from ₩1,142 billion as of December 31, 2000 to ₩1,298 billion as of December 31, 2001, resulted in higher provisioning for these operations.

Comparison of 2000 to 1999

Our provision for loan losses decreased from ₩1,010 billion in 1999 to ₩262 billion in 2000 as a result of:

- lower provisions, in respect of our new loan portfolio, and improvement in the quality of our existing loan portfolio; and
- a decrease in the level of impaired loans and a reduction in the proportion of total loans classified as substandard or below.

The quality of our loan portfolio improved in 2000, as reflected in a decrease of impaired loans from December 31, 1999 to December 31, 2000 despite increased lending volume. For example, the aggregate principal amount of impaired loans in our corporate loan portfolio decreased 9.6% from ₩6,111 billion as of December 31, 1999 to ₩5,527 billion as of December 31, 2000. As the credit quality of our loan portfolio, in particular our corporate loan portfolio, improved in 2000, our loan charge-offs net of recoveries decreased 49.8% from ₩1,030 billion in 1999 to ₩517 billion in 2000. Due to lower levels of charge-offs and impaired loans, provisions for loan losses decreased substantially in 2000 despite the growth of our total loan portfolio.

We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See “Item 4. Information on the Company—Assets and Liabilities—Loan Portfolio—Provisioning Policy”. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	<u>As of December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Impaired loans as a percentage of total corporate loans	20.8%	15.9%	12.8%
Allowance for loan losses as a percentage of total corporate loans	8.1	5.9	5.9
Allowance for loan losses as a percentage of impaired loans	35.3	32.7	38.5

During 2001, impaired loans as a percentage of total loans decreased due to the charge-off of corporate loans to several large corporate borrowers in 2001, including Hynix Semiconductor and former member companies of the Daewoo Group, as a result of further deterioration in the financial condition of these borrowers relating to specific events occurring in 2001. The level of allowance for loan losses as a percentage of total corporate loans and the level of allowance for loan losses as a percentage of impaired loans both increased as we increased our allowance for existing impaired loans due to our assessment of further deterioration in the financial condition of the relevant borrowers.

During 2000, impaired loans as a percentage of total loans and allowance for loan losses as a percentage of total loans in the corporate sector fell as a result of (1) an increase in new loans, most of which were classified as normal as of December 31, 2000, (2) a reduction in impaired loans through significant charge-offs and (3) a lower incidence of defaults. In addition, the level of allowance for loan losses fell as a percentage of impaired loans in 2000 as a result of continued economic stabilization in 2000, resulting in higher estimated recovery value of collateral.

For consumer loans, we establish allowances for loan losses based on historical losses as well as delinquencies and changes in underwriting and credit monitoring policies. We also analyze government economic data when considering consumer bankruptcies and delinquency rates as well as the buildup of consumer debt in Korea. The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector.

	<u>As of December 31,</u>		
	<u>1999</u>	<u>2000</u>	<u>2001</u>
Non-performing loans as a percentage of total consumer loans	1.9%	1.1%	1.6%
Allowance for loan losses as a percentage of total consumer loans	1.6	1.4	1.2
Allowance for loan losses as a percentage of non-performing consumer loans	39.0	36.9	23.9

During 2001, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of deterioration in the credit quality of our portfolio, particularly with respect to outstanding credit card balances. The level of allowance for loan losses as a percentage of total consumer loans and the level of allowance for loan losses as a percentage of non-performing consumer loans decreased principally as a result of the merger with H&CB, which increased the percentage of our consumer loans which are mortgage or home equity loans. Due to the historically low level of allowances for loan losses which H&CB deemed adequate based on its default experience, the inclusion of these new loans decreased the overall level of allowance for our consumer loan portfolio.

During 2000, non-performing consumer loans as a percentage of total loans and allowance for loan losses as a percentage of total consumer loans fell as a result of an increase in new loans, most of which were classified as normal as of December 31, 2000. In addition, the level of allowance

for loan losses fell as a percentage of non-performing loans in 2000 due to (1) our efforts to charge off non-performing loans, in respect of which we are required to establish higher levels of allowance for loan losses, and (2) continued economic stabilization in 2000, resulting in higher estimated recovery value of collateral such as home equity, for example, which was factored into our establishment of lower provisioning levels.

For information on allowance for loan losses, see “Item 4. Information on the Company—Assets and Liabilities—Loan Portfolio—Allocation of Allowance for Loan Losses.”

Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Trust fees, net	₩ 96	₩120	₩ 217	25.0%	80.8%
Commissions received on credit cards	266	451	880	69.5	95.1
Other fees and commission income (excluding credit card commissions)	202	178	325	(11.9)	82.6
Net trading revenue	507	13	124	(97.4)	853.8
Net gain on investments	186	11	33	(94.1)	200.0
Gain on disposition of subsidiaries	15	—	—	(100.0)	—
Other non-interest income	126	93	123	(26.2)	32.3%
Total non-interest income	<u>₩1,398</u>	<u>₩866</u>	<u>₩1,702</u>	<u>(38.1)%</u>	<u>96.5%</u>

Comparison of 2001 to 2000

Non-interest income increased 96.5% from ₩866 billion in 2000 to ₩1,702 billion in 2001. This increase was attributable primarily to:

- a ₩429 billion increase in commissions received on credit cards from ₩451 billion in 2000 to ₩880 billion in 2001;
- a ₩147 billion increase in other fees and commission income (excluding credit and commissions) from ₩178 billion in 2000 to ₩325 billion in 2001;
- a ₩111 billion increase in net trading revenue from ₩13 billion in 2000 to ₩124 billion in 2001; and
- a ₩97 billion increase in net trust fees from ₩120 billion in 2000 to ₩217 billion in 2001.

Commissions on credit cards include primarily fees received from member merchants on credit card transactions. The 95.1% increase in commissions on credit cards was attributable principally to an increase in the number and charge volume of our credit cards, including as a result of the merger with H&CB.

Other fees and commission income (excluding credit card commissions) consist of commissions received on remittances, fund management and letters of credit and other fees and commissions. The 82.6% increase in such income was attributable to an increase in various types of commission fees relating to our banking operations and an increase in commissions received from our management of the National Housing Fund following the merger, which was previously managed by H&CB, as well as in various other fees and commissions principally as a result of the merger.

Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio. The 853.8% increase in net trading revenue resulted primarily from a change from a net loss of ₩208 billion on trading-related revenue from disposals and revaluations of equity securities in 2000 compared to a net gain of ₩4 billion in 2001 as a result of improved performance of the Korean stock market, which was partially offset by a 78.4% decline in net gain on trading-related revenue from disposals and revaluations of debt securities from ₩148 billion in 2000 to ₩32 billion in 2001.

Trust fees consist of fees we receive for managing trust account assets, based on assets under management and the performance of the trusts, and penalty payments we receive when customers terminate their trust accounts prior to the end of the fixed term, net of subsidy for trust performance guarantees from our banking accounts to our trust accounts, which are payments from our banking accounts to make up for shortfalls in the guaranteed money trust accounts. The 80.8% increase in trust fees resulted primarily from a decrease in subsidy expense to ₩31 billion in 2001 compared to ₩164 billion in 2000. For further information on trust accounts, see “Item 4. Information on the Company—Business—Other Businesses—Trust Account Management Services.”

Comparison of 2000 to 1999

Non-interest income decreased 38.1% from ₩1,398 billion in 1999 to ₩866 billion in 2000. This decrease was attributable primarily to

- a ₩494 billion decrease in net trading revenue from ₩507 billion in 1999 to ₩13 billion in 2000; and
- a ₩175 billion decrease in net gain on investments from ₩186 billion in 1999 to ₩11 billion in 2000.

These decreases were partially offset by a ₩185 billion increase in commissions received on credit cards from ₩266 billion in 1999 to ₩451 billion in 2000.

The 97.4% decrease in net trading revenue was the result of a general decrease in prices of equity securities in Korea in 2000. Net gain on investments represents profits from sale of available-for-sale securities net of losses from sale of available-for-sale securities and impairment losses, and gains on disposal of equity security. The decrease in the prices of securities also led to a 94.1% decrease in net gain on investments from ₩186 billion in 1999 to ₩11 billion in 2000.

The 26.2% decrease in other non-interest income was primarily a result of gains we realized on the sale of our loans in 1999, which did not occur in 2000.

The 69.5% increase in commissions received on credit cards from 1999 to 2000 was primarily due to an increase in the number and charge volume of our credit cards.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Salaries and employee benefits	₩ 659	₩ 706	₩1,058	7.1%	49.9%
Depreciation and amortization	116	118	179	1.7	51.7
Other administrative expenses	300	334	411	11.3	23.1
Credit card fees	79	142	240	79.7	69.0
Other fees and commissions	196	224	337	14.3	50.4
Loss on disposition of subsidiaries	56	—	—	(100.0)	—
Other non-interest expenses	126	159	181	26.2	13.8
Total non-interest expense	<u>₩1,532</u>	<u>₩1,683</u>	<u>₩2,406</u>	<u>9.9%</u>	<u>43.0%</u>

Comparison of 2001 to 2000

Non-interest expense increased 43.0% from ₩1,683 billion in 2000 to ₩2,406 billion in 2001. This increase was primarily due to:

- a ₩352 billion increase in salaries and employee benefits from ₩706 billion in 2000 to ₩1,058 billion in 2001;
- a ₩113 billion increase in other fees and commissions from ₩224 billion in 2000 to ₩337 billion in 2001;
- a ₩98 billion increase in credit card fees from ₩142 billion in 2000 to ₩240 billion in 2001; and
- a ₩77 billion increase in administrative expenses from ₩334 billion in 2000 to ₩411 billion in 2001.

Salaries and employee benefits increased 49.9% from ₩706 billion in 2000 to ₩1,058 billion in 2001. The main reason for this increase was the early retirement and bonus payments that we made during 2001, which totaled ₩39 billion and ₩174 billion, respectively. With regard to the bonuses, some of these were paid in connection with a one-time payout relating to changes in the employee severance plans of the former Kookmin Bank. In addition, the rate for regular bonuses for certain employees of the former Kookmin Bank was substantially increased both to achieve parity with their H&CB counterparts and as part of a one-time increase in connection with the merger.

Other fees and commission expenses consist primarily of premiums paid to the Korea Deposit Insurance Corporation for deposit insurance, contributions to the Korea Credit Guarantee Fund for loan guarantees, commissions paid to loan collection agents on overdue loans and related fees. The 50.4% increase in other fees and commission expenses was due to increases in these payments as a result of the merger with H&CB, as well as growth in the volume of customer deposits taken by the former Kookmin Bank.

Credit card fees include fees and commissions paid to our sales agents, expenses related to awarding mileages and bonus points to our credit card customers and fees and commissions paid to our member merchants. The 69.0% increase in credit card fees resulted mainly from an increase in the number and charge volume of our credit cards, including as a result of the merger with H&CB.

The 23.1% increase in administrative expenses (which include other employee benefits, advertising, and public relations, sales promotion and data processing expenses) from 2000 to 2001 was primarily attributable to the merger with H&CB.

Comparison of 2000 to 1999

Non-interest expense increased 10.0% from ₩1,532 billion in 1999 to ₩1,683 billion in 2000. The increase in non-interest expense was primarily due to:

- a ₩63 billion increase in credit card fees from ₩79 billion in 1999 to ₩142 billion in 2000;
- a ₩47 billion increase in salaries and employee benefits from ₩659 billion in 1999 to ₩706 billion in 2000; and
- a ₩34 billion increase in administrative expenses from ₩300 billion in 1999 to ₩334 billion in 2000.

The 79.7% increase in credit card fees was a result of increased marketing due to the expansion of our credit card activities. The 11.7% increase in administrative expenses was primarily attributable to the increased administrative expenses incurred in connection with the expansion of our credit card operations. The 7.1% increase in salaries and employee benefits resulted from increased wages due to the increase in overall market prices in Korea.

In 1999, we realized a loss of ₩56 billion on the sale of Bukook Mutual Savings & Finance to Hansol Mutual Savings & Finance. No such loss was incurred in 2000.

Income Tax Expense

Comparison of 2001 to 2000

Income tax expense did not change significantly from ₩630 billion in 2000 to ₩625 billion in 2001 as our taxable income remained relatively constant from 2000 to 2001. The statutory tax rate was 30.8% in 2000 and 2001.

Our effective rate of income tax decreased from 38.8% in 2000 to 37.7% in 2001. This decrease was due primarily to a decrease in expenses not deductible for tax purposes in 2001 compared to 2000.

As a result of the above, our net income was ₩992 billion in 2001 as compared to ₩928 billion in 2000.

Comparison of 2000 to 1999

Income tax expense increased from ₩350 billion in 1999 to ₩630 billion in 2000 as a result of our increased taxable income. The statutory tax rate was 30.8% in 1999 and 2000.

Our effective rate of income tax decreased from 41.9% in 1999 to 38.8% in 2000. This decrease was due primarily to the changes in tax law allowing us to take a 50% deduction on valuation gains from the equity method of accounting. These gains are recorded as a deferred income tax liability.

As a result of the above, our net income was ₩928 billion in 2000 as compared to ₩481 billion in 1999.

Results by Principal Business Segment under Korean GAAP

We are organized into four major business segments: retail banking, credit card operations, corporate banking and international banking and capital markets. The following discussion is based upon our internal management account information, prepared based on Korean GAAP. The following table shows, for the periods indicated, our results of operation by segment based on this information.

	Net Income (1)			Total Revenue		
	Year ended December 31,			Year ended December 31,		
	1999	2000	2001	1999	2000	2001
	(in billions of Won)					
Retail banking	₩ 166	₩ 364	₩ 585	₩ 4,546	₩ 4,966	₩ 5,889
Credit card operations	43	301	533	904	1,468	2,676
Corporate banking	(244)	60	(171)	2,816	2,896	3,225
International banking and capital markets	105	143	106	3,765	3,946	4,815
Other	(154)	(140)	286	1,419	1,474	1,530
Total	<u>₩ (84)</u>	<u>₩ 728</u>	<u>₩1,339</u>	<u>₩13,450</u>	<u>₩14,750</u>	<u>₩18,135</u>

(1) After deduction of income tax allocated proportionately among each segment.

Retail Banking

Our retail banking segment products include mortgage and home equity loans and other consumer loans, deposits and other savings products.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Income statement data					
Interest income	₩4,374	₩4,732	₩5,723	8.2%	20.9%
Interest expense	3,471	3,595	3,783	3.6	5.2
Provision for loan losses	45	10	133	(77.8)	1,230.0
Non-interest income	172	234	166	36.0	(29.1)
Non-interest expense including depreciation and amortization	787	835	1,111	6.1	33.1
Segment result (1)	243	526	862	116.5	63.9
Income tax (2)	77	162	277	110.4	71.0
Net income	<u>₩ 166</u>	<u>₩ 364</u>	<u>₩ 585</u>	<u>119.3%</u>	<u>60.7%</u>

(1) Net income per segment before income tax.

(2) Portion of income tax allocated to this segment.

Comparison of 2001 to 2000

Our overall segment result increased 63.9% from ₩526 billion in 2000 to ₩862 billion in 2001.

Interest income from our retail banking activities increased 20.9% from ₩4,732 billion in 2000 to ₩5,723 billion in 2001, primarily due to an increase in average lending volume to individuals and households. In particular, the average volume of mortgage and home equity loans increased 346% from ₩1,291 billion in 2000 to ₩5,757 billion in 2001 primarily due to the merger with H&CB, the largest private sector mortgage lender in Korea. This increase was partially offset by a decline in average interest rates in respect of such loans. Interest income from inter-segment lending from retail banking to other segments also increased as a result of an increase in the volume of such lending.

Our largest and most important funding source is deposits from our retail customers. In 2001, we had an increase of ₩19,709 billion in deposits, of which we used ₩10,487 billion for our retail banking operations. We used the remaining ₩9,222 billion of funds from deposits to fund our operations in other segments.

Interest expense increased 5.2% from ₩3,595 billion in 2000 to ₩3,783 billion in 2001. The average volume of deposit and savings products increased in 2001 due to the merger with H&CB and increased marketing efforts which led to increased volumes of customer deposits.

Provision for loan losses on retail loans increased 1,230% from ₩10 billion in 2000 to ₩133 billion in 2001 primarily due to an increase of retail loan volumes, including mortgage and home equity loans, due to the merger with H&CB and our increased marketing efforts with respect to retail loans, which led to an increase in the number of outstanding retail loans.

Non-interest income decreased 29.1% from ₩234 billion in 2000 to ₩166 billion in 2001. This was primarily due to a reclassification of the credit card handling and related fees that were received from Kookmin Credit Card into the credit card segment in 2001. These fees were included in the retail banking segment in 2000.

Non-interest expense, which includes depreciation and amortization, increased 33.1% from ₩835 billion in 2000 to ₩1,111 billion in 2001. This was due to increases in the salaries and wages paid to our employees, which were charged proportionately to each segment.

Comparison of 2000 to 1999

Our overall segment result increased 116.5% from ₩243 billion in 1999 to ₩526 billion in 2000.

Interest income from retail banking activities increased 8.2% from ₩4,374 billion in 1999 to ₩4,732 billion in 2000, primarily due to (1) an increase in average lending volume to individuals and households, particularly, mortgage and home equity loans and overdrafts, partially offset by a decline in average interest rates in respect of such loans, and (2) the increase in inter-segment lending from retail banking to other segments.

The increase in average lending volume to individuals resulted from an increase in mortgage and home equity loans primarily due to the recent trend and preference by commercial banks, including ourselves, to lend on a secured basis. The increase in overdrafts was a result of increased efforts to promote and market overdrafts.

In 2000, we had an increase in deposits of ₩9,422 billion, of which we used ₩3,414 billion for our retail banking operations. We used the remaining ₩6,008 billion of funds from deposits to fund our operations in other segments.

Interest expense increased 3.6% from ₩3,471 billion in 1999 to ₩3,595 billion in 2000. The average volume of deposit and savings products increased as customers withdraw their deposits from financial institutions they perceive to be weaker, and opened accounts with banks they perceive to be stronger, such as us. However, this was largely offset by the lower interest rates paid on these products as the economy improved.

Provision for loan losses on retail loans decreased primarily as a result of the improvement in the quality of our retail loan portfolio and continued economic stabilization.

Non-interest income increased 36.0% from ₩172 billion in 1999 to ₩234 billion in 2000. This was primarily due to the increase in handling and related fees that we receive from Kookmin Credit Card, which are reflected in our retail banking segment. This increase was the result of improved operational results at Kookmin Credit Card.

Non-interest expense, which includes depreciation and amortization, increased 6.1% from ₩787 billion in 1999 to ₩835 billion in 2000. This was primarily due to increased salaries and wages paid to our employees, increased premiums paid to the Korea Deposit Insurance Corporation for deposit insurance due to the higher volume of customer deposits taken by us and an increase in severance benefits paid to employees who retired in 2000, partially offset by a decrease in other non-interest expenses.

Credit Card Operations

Our credit card segment handles credit card activities managed by Kookmin Credit Card, which is our largest subsidiary, and the credit card activities relating to our interest in BC Card acquired as a result of the merger with H&CB.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Income statement data					
Interest income	₩599	₩984	₩1,483	64.3%	50.7%
Interest expense	373	478	629	28.2	31.6
Provision for loan losses	109	113	479	3.7	323.9
Non-interest income	305	484	1,193	58.7	146.5
Non-interest expense including depreciation and amortization	336	441	799	31.3	81.2
Segment result (1)	86	436	769	407.0	76.4
Income tax (2)	43	135	236	214.0	74.8
Net income	₩ 43	₩301	₩ 533	600.0%	77.1%

(1) Net income per segment before income tax.

(2) Portion of income tax allocated to this segment.

Comparison of 2001 to 2000

Our overall segment result increased 76.4% from ₩436 billion in 2000 to ₩769 billion in 2001.

Interest income increased 50.7% from ₩984 billion in 2000 to ₩1,483 billion in 2001. This increase was due to an increase in interest income received from cash advances and installment purchases as a result of increased average volume of outstanding credit card balances. The increase in volume was attributable to the merger with H&CB, as well as growth in the portfolio of Kookmin Credit Card, particularly with respect to cash advances, which was partially offset by the sale of outstanding credit card balances through securitization transactions. Our outstanding credit card balances increased 96.1% from ₩7,183 billion as of December 31, 2000 (relating to Kookmin Credit Card) to ₩14,089 billion as of December 31, 2001 (of which ₩9,405 billion related to Kookmin Credit Card).

Interest expense increased 31.6% from ₩478 billion in 2000 to ₩629 billion in 2001 due to increased funding costs resulting from higher average balances. This increase was partially offset by a decrease in average interest rates on our borrowings from 10.09% in 2000 to 7.45% in 2001.

Provision for loan losses increased 323.9% from ₩113 billion in 2000 to ₩479 billion in 2001 mainly due to increased average volumes of outstanding credit card balances, higher levels of delinquent balances and increased charge-offs of delinquent balances during 2001. As a result of changes in charge-off policies promulgated by the Financial Supervisory Service, which made it easier for us to charge off loans and thereby allowed us to expand the scope of loans we charged off, we charged off more credit card loans in 2001 than in prior years.

Non-interest income increased 146.5% from ₩484 billion in 2000 to ₩1,193 billion in 2001 due principally to an increase in transaction fees received from member merchants, which are charged based on both the balance of credit and the frequency of usage.

Non-interest expense increased 81.2% from ₩441 billion in 2000 to ₩799 billion in 2001 due to increased marketing expenses and agency fees paid to BC Card as well as individual agents.

Comparison of 2000 to 1999

Our overall segment result increased 407.0% from ₩86 billion in 1999 to ₩436 billion in 2000.

Interest income increased 64.3% from ₩599 billion in 1999 to ₩984 billion in 2000. This increase was due to an increase in interest income received from cash advances and installment purchases, partially offset by a reduction in volume of factoring receivables and installment financing provided by Kookmin Credit Card.

Interest expense increased 28.2% from ₩373 billion in 1999 to ₩478 billion in 2000. This increase was due to increased internal funding costs resulting from higher average balances. This increase was partially offset by a decline in average interest rates on our borrowings from 11.10% in 1999 to 10.09% in 2000.

Non-interest income increased 58.7% from ₩305 billion in 1999 to ₩484 billion in 2000 due principally to an increase in transaction fees received from member merchants.

Non-interest expense increased 31.3% from ₩336 billion in 1999 to ₩441 billion in 2000 due to increased marketing and administrative expenses.

Corporate Banking

Our corporate banking segment handles our transactions with private and public enterprises. Activities within the segment include loans, overdrafts and other credit facilities, deposits in foreign currencies and foreign currency activities.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Income statement data					
Interest income	₩2,597	₩2,713	₩2,958	4.5%	9.0%
Interest expense	1,787	1,894	2,093	6.0	10.5
Provision for loan losses	962	585	742	(39.2)	26.8
Non-interest income	219	183	267	(16.4)	45.9
Non-interest expense including depreciation and amortization	424	330	642	(22.2)	94.5
Segment result (1)(3)	(357)	87	(252)	N/M	N/M
Income tax (2)(3)	(113)	27	(81)	N/M	N/M
Net income (3)	<u>₩ (244)</u>	<u>₩ 60</u>	<u>₩ (171)</u>	N/M	N/M

(1) Net income per segment before income tax.

(2) Portion of income tax allocated to this segment.

(3) N/M = not meaningful.

For 1999 and 2001, the income tax allocation had positive effects on net income from this segment.

Comparison of 2001 to 2000

Our overall segment result decreased from a profit of ₩87 billion in 2000 to a loss of ₩252 billion in 2001. The loss in 2001 was primarily due to increased provisions for loan losses and non-interest expenses related to the merger with H&CB.

Interest income increased 9.0% from ₩2,713 billion in 2000 to ₩2,958 billion in 2001. This increase was primarily due to a 17.3% increase in average corporate lending volumes from ₩26,159 billion in 2000 to ₩31,104 billion in 2001, which was partially offset by the effects of a decrease in average interest rates from 9.25% in 2000 to 8.63% in 2001. We also engaged in an aggressive promotional campaign to attract small- and medium-sized enterprise customers which enabled us to increase interest income by increasing our market share with respect these customers.

Interest expense represents the internal transfer cost for the use of funds. The 10.5% increase from ₩1,894 billion in 2000 to ₩2,093 billion in 2001 was primarily the result of an increase in inter-segment borrowing from our retail banking segment as a result of the increased volume of our commercial loans and the need to use these funds efficiently. This increase was partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates. Our corporate banking segment paid ₩2,025 billion of interest expense to our retail banking segment, demonstrating the importance of those operations as a source of funding for our commercial lending.

Provision for losses on commercial loans, guarantees and acceptances increased 26.8% from ₩585 billion in 2000 to ₩742 billion in 2001 primarily due to increased charge-offs and a deterioration in the financial condition of certain large corporate borrowers, including primarily Hynix Semiconductor.

Non-interest income increased 45.9% from ₩183 billion in 2000 to ₩267 billion in 2001. The primary reason for the increase was the increase in foreign loan valuations resulting from the appreciation of the Won against the U.S. dollar.

Non-interest expense, which includes depreciation and amortization, increased 94.5% from ₩330 billion in 2000 to ₩642 billion in 2001 primarily due to an increase in loss on sale of loans, which were transferred to special purpose entities, amounting to ₩89 billion, and increased administrative expenses resulting from an increase in loan volumes.

Comparison of 2000 to 1999

Our overall segment result improved from a loss of ₩357 billion in 1999 to a profit of ₩87 billion in 2000.

The segmental loss in 1999 was primarily due to provisions for losses against our commercial loans, guarantees and acceptances of ₩962 billion in 1999, compared to ₩585 billion in 2000. The higher level of provisions for loan losses in 1999 resulted from the changes in the classification guidelines promulgated by the Financial Supervisory Commission that reflect forward looking criteria to comply with international standards. The credit quality of our corporate loan portfolio improved in 2000 as reflected in the decline in our non-performing loans.

The 4.5% increase in interest income was due to increased average volume of our corporate lending in Won from ₩21,690 billion in 1999 to ₩26,159 billion in 2000, partially offset by the effects of a decrease in average interest rates from 10.54% in 1999 to 9.25% in 2000. The increase in the average volume of corporate lending resulted from increased loans to small- and medium-sized enterprises and large corporate borrowers including government controlled entities such as the Korea Deposit Insurance Corporation.

The 6.0% increase in interest expense was a result of increased inter-segment borrowing from our retail banking segment, partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

Non-interest income decreased 16.4% from ₩219 billion in 1999 to ₩183 billion in 2000. In 1999, prepayment penalties on high interest loans to corporate customers increased, as these customers prepaid such loans in light of the lower interest rate environment compared to 1998. This was not repeated in 2000.

Non-interest expense, which includes depreciation and amortization, decreased 22.2% from ₩424 billion in 1999 to ₩330 billion in 2000 due to a ₩107 billion decrease in loss on sale of loans.

International Banking and Capital Markets

Our international banking and capital markets segment handles our treasury activities and dealing of trading and investment securities as well as raising foreign currency funding through debentures and borrowings in foreign currencies and making loans overseas from our overseas branches and subsidiaries.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Income statement data					
Interest income	₩2,075	₩2,055	₩1,871	(1.0)%	(9.0)%
Interest expense	1,882	1,838	1,813	(2.3)	(1.4)
Provision for loan losses	92	55	58	(40.2)	5.5
Non-interest income	1,690	1,891	2,944	11.9	55.7
Non-interest expense including depreciation and amortization	<u>1,637</u>	<u>1,846</u>	<u>2,788</u>	<u>12.8</u>	<u>51.0</u>
Segment result (1)	154	207	156	34.4	(24.6)
Income tax (2)	<u>49</u>	<u>64</u>	<u>50</u>	<u>30.6</u>	<u>(21.9)</u>
Net income	<u>₩ 105</u>	<u>₩ 143</u>	<u>₩ 106</u>	<u>36.2%</u>	<u>(25.9)%</u>

- (1) Net income per segment before income tax.
(2) Portion of income tax allocated to this segment.

Comparison of 2001 to 2000

Our overall segment result decreased 24.6% from ₩207 billion in 2000 to ₩156 billion in 2001.

Interest income decreased 9.0% from ₩2,055 billion in 2000 to ₩1,871 billion in 2001. The primary reason for the decrease was lower interest income from trading and investment securities as a result of lower interest rates in Korea. In addition, our deposits with other banks and financial institutions have decreased as we have used these funds to provide new loans to retail and commercial borrowers at higher interest rates.

Interest expense decreased 1.4% from ₩1,838 billion in 2000 to ₩1,813 billion in 2001 due to a decrease in interest expense paid on borrowings from external funding sources as a result of lower interest rates in Korea, including the repayment of certain debt instruments issued at high interest rates during the financial crisis in Korea commencing in late 1997. Our average interest rate decreased from 11.16% in 2000 to 8.39% in 2001.

Provision for loan losses increased 5.5% from ₩55 billion in 2000 to ₩58 billion in 2001 as a result of our enhanced credit review process. The charge-off amount increased by ₩113 billion from ₩28 billion in 2000 to ₩141 billion in 2001.

Non-interest income increased 55.7% from ₩1,891 billion in 2000 to ₩2,944 billion in 2001 primarily due to an increase in the volume of our derivatives assets in order to hedge risk attributable to foreign exchange rates. In addition, an increase in gain on trading of those assets resulting from foreign exchange rate fluctuations also contributed to this increase.

Non-interest expense increased 51.0% from ₩1,846 billion in 2000 to ₩2,788 billion in 2001 due to an increase in volume of derivatives liabilities to hedge risk attributable to foreign exchange rates and an increase in loss on trading of those liabilities resulting from foreign exchange rate fluctuations.

Comparison of 2000 to 1999

Our overall segment result increased 34.4% from ₩154 billion in 1999 to ₩207 billion in 2000.

Interest income decreased 1.0% from ₩2,075 billion in 1999 to ₩2,055 billion in 2000 principally as a result of a ₩65 billion decrease in interest income from long-term debt securities which was partially offset by a ₩47 billion increase in interest income from call loans and other short-term money market investments. Our investments in interest bearing securities increased as a result of increased funding available from our retail deposit base. However, this was more than offset by lower yields as a result of declining interest rates in Korea. Interest income on call loans and other short-term money market investments increased due to an increase in volume as a result of increased funding available from our deposit base.

Interest expense decreased 2.3% from ₩1,882 billion in 1999 to ₩1,838 billion in 2000. The decrease was due to a decrease in borrowings from external funding sources, partially offset by an increase in inter-segmental borrowings from the retail banking segment as a result of increased funding available from our retail deposit base.

Provision for loan losses decreased 40.2% from ₩92 billion in 1999 to ₩55 billion in 2000 as a result of an improvement in the quality of our foreign currency loan portfolio.

Non-interest income increased 11.9% from ₩1,690 billion in 1999 to ₩1,891 billion in 2000 due to increased gains on valuation and sale of debt securities as a result of declining interest rates in the market, partially offset by decreased gains from equity securities and other securities such as beneficiary certificates. This increase was also due to the increase in gains on derivatives. However, losses on derivatives also increased in proportion, resulting in a net loss of ₩3 billion from derivatives.

Non-interest expense, which includes depreciation and amortization, increased 12.8% from ₩1,637 billion in 1999 to ₩1,846 billion in 2000 due to losses on our trading activities in 2000, particularly on trading of equity securities, as a result of a decline in the Korean stock market in 2000, partially offset by a decrease in losses on valuation and sale of debt securities. This increase was also due to the increase in losses on derivative transactions as explained above.

Other

“Other” includes our trust account management operations, the operations within our guaranteed money trust accounts which are included in our consolidated financial statements under Korean GAAP and the operations of all of our consolidated subsidiaries except Kookmin Credit Card.

	Year ended December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Income statement data					
Interest income	₩ 730	₩ 424	₩ 462	(41.9)%	9.0%
Interest expense	705	445	542	(36.9)	21.8
Provision for loan losses	280	358	38	27.9	(89.4)
Non-interest income (1)	689	1,050	1,068	52.4	1.7
Non-interest expense including depreciation and amortization	522	740	584	41.8	(21.1)
Segment result (2)(4)	₩ (88)	₩ (69)	₩ 366	21.6%	N/M
Income tax (3)	66	71	80	7.6	12.7
Net income (4)	₩(154)	₩(140)	₩ 286	9.1%	N/M

(1) Including extraordinary income of ₩175 billion in 2001.

(2) Net income per segment before income tax.

(3) Portion of income tax allocated to this segment.

(4) N/M = not meaningful.

Comparison of 2001 to 2000

Our overall segment recovered from a loss of ₩69 billion in 2000 to a profit of ₩366 billion in 2001.

Interest income increased 9.0% from ₩424 billion in 2000 to ₩462 billion in 2001. This was primarily due to the consolidation of additional subsidiaries as a result of the merger with H&CB.

Interest expense increased 21.8% from ₩445 billion in 2000 to ₩542 billion in 2001. This was primarily due to allocation of interest expense of ₩192 billion paid on subordinated debt into the “Other” segment in 2001. These expenses were included in the international banking and capital markets segment in 2000.

Provision for loan losses decreased 89.4% from ₩358 billion in 2000 to ₩38 billion in 2001 mainly due to a reduction in provisions for Kookmin Leasing’s lease financings.

Non-interest income increased 1.7% from ₩1,050 billion in 2000 to ₩1,068 billion in 2001.

Non-interest expense decreased 21.1% from ₩740 billion in 2000 to ₩584 billion in 2001. The decrease was due to a 79.7% decrease from ₩158 billion in 2000 to ₩32 billion in 2001 in subsidies paid on guaranteed trusts from our banking accounts to our trust accounts.

Comparison of 2000 to 1999

Our overall segment recorded a loss of ₩88 billion in 1999 and a loss of ₩69 billion in 2000.

Interest income decreased 41.9% from ₩730 billion in 1999 to ₩424 billion in 2000, while interest expense decreased 36.9% from ₩705 billion in 1999 to ₩445 billion in 2000, due to decreases in interest income and expense, respectively, in our guaranteed trust accounts and at Kookmin Leasing, one of our subsidiaries, which was undergoing a troubled debt restructuring. Both

interest income and expense in our guaranteed trust accounts decreased in 2000 as a result of decreases in the average volumes of interest earning assets and interest bearing liabilities, respectively, and a decline in market interest rates in 2000. Interest income and interest expense decreased at Kookmin Leasing due to contracted operations resulting from Kookmin Leasing's financial difficulties.

Provision for loan losses increased 27.9% from ₩280 billion in 1999 to ₩358 billion in 2000 as a result of an increase in provision for loan losses at Kookmin Leasing, which was due to deterioration of the quality of loans from Kookmin Leasing to its subsidiary, Kookmin Leasing & Finance (Hong Kong) Ltd., requiring increased provision levels in respect of these loans.

Non-interest income increased 52.4% from ₩689 billion in 1999 to ₩1,050 billion in 2000 as a result of an increase in trust management fees that our banking accounts received from our non-guaranteed performance-based trust accounts and an increase in non-interest income within our guaranteed trust accounts.

Non-interest expense increased 41.8% from ₩522 billion in 1999 to ₩740 billion in 2000 as a result of an increase in subsidies paid on guaranteed trusts from our banking accounts to our trust accounts due to increased losses incurred in the guaranteed trust accounts. The increase was also a result of an increase in non-interest expense at Kookmin Leasing due to increased losses on valuation of Kookmin Leasing's investment in equity-type beneficiary certificates.

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets.

	As of December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			(% change)	
Cash and cash equivalents	₩ 2,161	₩ 1,701	₩ 3,041	(21.3)%	78.8%
Restricted cash	706	1,540	4,373	118.1	184.0
Interest-bearing deposits in other banks	629	1,587	592	152.3	(62.7)
Call loans and securities purchased under resale agreements	377	2,491	2,012	560.7	(19.2)
Trading assets	3,636	3,104	6,874	(14.6)	121.5
Available-for-sale securities	8,167	8,281	12,324	1.4	48.8
Held-to-maturity securities	7,765	9,005	13,225	16.0	46.9
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	24,667	29,795	36,113	20.8	21.2
Construction	1,724	2,168	4,141	25.8	91.0
Lease financing	882	592	568	(32.9)	(4.1)
Other commercial	1,053	1,216	1,669	15.5	37.3
Total commercial	28,326	33,771	42,491	19.2	25.8
Consumer:					
Credit cards	3,362	8,321	16,751	147.5	101.3
Mortgages and home equity	6,034	8,068	37,194	33.7	361.0
Other consumer	6,143	8,151	23,312	32.7	186.0
Total consumer	15,539	24,540	77,257	57.9	214.8
Total domestic	43,865	58,311	119,748	32.9	105.4
Foreign:					
Commercial and industrial	1,080	1,086	1,146	0.6	5.5
Total foreign	1,080	1,086	1,146	0.6	5.5
Deferred origination costs	29	38	66	31.0	73.7
Less allowance for loan losses	(2,623)	(2,394)	(3,508)	(8.7)	46.5
Total loans	42,351	57,041	117,452	34.7	105.9
Premises and equipment, net	1,130	1,153	2,030	2.0	76.1
Due from customers on acceptances	995	1,916	1,887	92.6	(1.5)
Accrued interest and dividend receivable	1,090	1,107	1,160	1.6	4.8
Security deposits	687	690	1,244	0.4	80.3
Other assets	1,660	1,175	2,016	(29.2)	71.6
Total assets	<u>₩71,354</u>	<u>₩90,791</u>	<u>₩168,230</u>	<u>27.2%</u>	<u>85.3%</u>

Comparison of 2001 to 2000

Our assets increased 85.3% from ₩90,791 billion as of December 31, 2000 to ₩168,230 billion as of December 31, 2001 principally due to the merger with H&CB. For information regarding the fair value of the assets we acquired in the merger, see "Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data—Merger with H&CB." Excluding the fair market value of the assets acquired from H&CB as of November 1, 2001 of ₩68,347 billion, our assets increased 10.0% from ₩90,791 billion as of December 31, 2000 to ₩99,883 billion as of December 31, 2001, primarily due to increases in consumer loans and credit card balances.

Our loans increased 105.9% from ₩57,041 billion as of December 31, 2000 to ₩117,452 billion as of December 31, 2001. This increase was attributable principally to the merger with H&CB, as well as growth in the loan portfolio of the former Kookmin Bank due to increased loan demand. Commercial and industrial loans increased 21.2% from ₩29,795 billion as of December 31, 2000 to ₩36,113 billion as of December 31, 2001. Credit card balances increased 101.3% from ₩8,321 billion as of December 31, 2000 to ₩16,751 billion as of December 31, 2001. Mortgages and home equity loans increased 361.0% from ₩8,068 billion as of December 31, 2000 to ₩37,194 billion as of December 31, 2001. Other consumer loans increased 186.0% from ₩8,151 billion as of December 31, 2000 to ₩23,312 billion as of December 31, 2001. The growth in our total assets was also partially attributable to a ₩12,033 billion increase in trading assets and available-for-sale and held-to-maturity securities, and a ₩2,833 billion increase in restricted cash from ₩1,540 billion as of December 31, 2000 to ₩4,373 billion as of December 31, 2001. These increases also resulted principally from the merger with H&CB.

Comparison of 2000 to 1999

Our assets increased 27.2% from ₩71,354 billion as of December 31, 1999 to ₩90,791 billion as of December 31, 2000 principally due to increased lending and an increase in held-to-maturity securities.

Our loans increased 34.7% from ₩42,351 billion as of December 31, 1999 to ₩57,041 billion as of December 31, 2000. This increase was due largely to increases in commercial and industrial loans, credit card balances, mortgage and home equity loans and other consumer loans. Commercial and industrial loans increased 20.8% from ₩24,667 billion as of December 31, 1999 to ₩29,795 billion as of December 31, 2000. Credit card balances increased 147.5% from ₩3,362 billion as of December 31, 1999 to ₩8,321 billion as of December 31, 2000. Mortgages and home equity loans increased 33.7% from ₩6,034 billion as of December 31, 1999 to ₩8,068 billion as of December 31, 2000. Other consumer loans increased 32.7% from ₩6,143 billion as of December 31, 1999 to ₩8,151 billion as of December 31, 2000. The growth in our total assets was also partially attributable to a ₩2,114 billion increase in call loans and securities purchased under resale agreements from ₩377 billion as of December 31, 1999 to ₩2,491 billion as of December 31, 2000. These increases in lending were due mainly to increased loan demand and to the fact that our funding increased in 2000 due to an increase in deposits.

The 16.0% increase in our held-to-maturity securities was a result of an increase in debt securities issued or guaranteed by the Korean government or government-controlled entities. We increased our investments in these low risk securities with the increased funding from our deposit base in 2000.

For further information on our assets, see “Item 4. Information on the Company—Assets and Liabilities.”

Liabilities and Stockholders' Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities.

	As of December 31,			Year ended December 31,	
	1999	2000	2001	1999/2000	2000/2001
	(in billions of Won)			% change	
Deposits					
Interest bearing	₩40,079	₩54,201	₩110,895	35.2%	104.6%
Non-interest bearing	2,659	1,982	4,141	(25.5)	108.9
Call money	1,333	581	2,701	(56.4)	364.9
Trading liabilities	298	718	287	140.9	(60.0)
Other borrowed funds	4,816	6,369	10,812	32.2	69.8
Acceptances outstanding	995	1,916	1,887	92.6	(1.5)
Accrued interest payable	2,105	2,311	4,617	9.8	99.8
Secured borrowings	423	1,468	5,501	247.0	274.7
Long-term debt	14,212	14,797	16,626	4.1	12.4
Other liabilities	1,853	2,482	2,820	33.9	13.6
Total liabilities	<u>68,773</u>	<u>86,825</u>	<u>160,287</u>	<u>26.2</u>	<u>84.6</u>
Minority interest	21	221	308	952.4	39.4
Common stock	1,498	1,498	1,588	—	6.0
Additional paid-in capital	1,141	1,242	4,960	8.8	299.4
Other (1)	(79)	1,005	1,087	N/M	8.2
Stockholders' equity	<u>2,560</u>	<u>3,745</u>	<u>7,635</u>	<u>46.3</u>	<u>103.9</u>
Total liabilities, minority interest and stockholders' equity	<u>₩71,354</u>	<u>₩90,791</u>	<u>₩168,230</u>	<u>27.2%</u>	<u>85.3%</u>

(1) N/M = not meaningful.

Comparison of 2001 to 2000

Our total liabilities increased 84.6% from ₩86,825 billion as of December 31, 2000 to ₩160,287 billion as of December 31, 2001. The increase was primarily due to the merger with H&CB. For information regarding the fair market values of the liabilities we assumed in the merger, see "Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data—Merger with H&CB." Excluding the fair market value of liabilities assumed from H&CB as of November 1, 2001 of ₩64,858 billion, our total liabilities increased 10.0% from ₩86,825 as of December 31, 2000 to ₩95,429 billion as of December 31, 2001.

Our interest bearing deposits increased 104.6% from ₩54,201 billion as of December 31, 2000 to ₩110,895 billion as of December 31, 2001, primarily due to increases in savings deposits, time deposits other than certificates and mutual installment deposits. These increases resulted principally from the merger with H&CB.

The 274.7% increase in secured borrowings from ₩1,468 billion as of December 31, 2000 to ₩5,501 billion as of December 31, 2001 was due primarily to new asset securitization transactions we entered into in 2001, as well as the merger with H&CB.

Other borrowed funds increased 69.8% from ₩6,369 billion as of December 31, 2000 to ₩10,812 billion as of December 31, 2001 due primarily to increases in short-term debentures, borrowings in foreign currencies and borrowings by our subsidiaries from other financial institutions. These increases were attributable principally to the merger with H&CB.

Our stockholders' equity increased by 103.9% from ₩3,745 billion as of December 31, 2000 to ₩7,635 billion as of December 31, 2001. This increase resulted principally from an increase in paid in capital, which was attributable to the issuance of our common stock to former stockholders of H&CB in the merger. See “—Capital Adequacy” below.

Comparison of 2000 to 1999

Our total liabilities increased 26.2% from ₩68,773 billion as of December 31, 1999 to ₩86,825 billion as of December 31, 2000. The increase was primarily due to an increase in interest bearing deposits and, to a lesser extent, an increase in other borrowed funds.

Our interest bearing deposits increased 35.2% from ₩40,079 billion as of December 31, 1999 to ₩54,201 billion as of December 31, 2000, primarily due to increases in time deposits other than certificates and savings deposits. These increases resulted principally from recent difficulties in the Korean financial sector which led many people to withdraw their deposits from banks they perceive as weaker and deposit them with banks they perceive as stronger, such as ourselves.

The increase in secured borrowings from ₩423 billion as of December 31, 1999 to ₩1,468 billion as of December 31, 2000 was due primarily to new asset securitization transactions we entered into in 2000.

Other borrowed funds increased 32.2% from ₩4,816 billion as of December 31, 1999 to ₩6,369 billion as of December 31, 2000 due primarily to increases in cover bills sold, which are deposit-type borrowings that pay interest in advance, partially offset by a decrease in borrowings from the Bank of Korea. This increase in cover bills sold occurred mostly in the last quarter of 2000 as a result of the Korean government's announcement of certain tax law changes rendering it less favorable for our customers to receive interest income as of December 31, 2001 as opposed to as of December 31, 2000. Borrowings from the Bank of Korea decreased 28.1% from ₩1,196 billion in 1999 to ₩860 billion as of December 31, 2000.

Our stockholders' equity increased by 46.3% from ₩2,560 billion as of December 31, 1999 to ₩3,745 billion as of December 31, 2000. This increase resulted principally from an increase in retained earnings, which was attributable to an increase in net income in 2000. Our stockholders' equity as of December 31, 1999 and 2000 included 40 million shares and 32 million shares, respectively, of redeemable preferred stock issued to the Korea Deposit Insurance Corporation. Our investment in bonds issued by the Korea Deposit Insurance Corporation, however, offset our preferred stock because both instruments were related to the same transaction. See “—Capital Adequacy” below and “Item 4. Information on the Company—History and Development of the Company.”

For further information on our sources of funding, see “Item 4. Information on the Company—Assets and Liabilities—Funding.”

Liquidity

We are exposed to liquidity risk arising from withdrawals of deposits and maturities of our borrowings, as well as the need to fund our lending, trading and investment activities and the management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see “Item 4. Information on the Company—Assets and Liabilities—Risk Management—Liquidity Risk Management.”

Our primary source of funding as a retail bank has historically been and continues to be customer deposits. Deposits amounted to ₩42,738 billion, ₩56,183 billion and ₩115,036 billion as of December 31, 1999, 2000 and 2001, which represented approximately 67.3%, 70.8% and 76.3% of

our total funding, respectively. We have been able to use increases in customer deposits in recent years to finance our operations generally, including meeting a portion of our liquidity requirements. We also use cash and cash equivalents, payments on loans and sales of short-term securities to meet our liquidity needs. Other sources of liquidity available to us include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to ₩6,149 billion, ₩6,950 billion and ₩13,513 billion as of December 31, 1999, 2000 and 2001 and represented 9.7%, 8.8% and 9.0% of our total funding, respectively. These types of borrowings have maturities of less than one year.

Starting from January 1, 1999, the Financial Supervisory Commission of Korea required each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see “Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Liquidity.”

Off-Balance Sheet Arrangements

We are involved in several types of off-balance sheet arrangements, including guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. See “Item 4. Information on the Company—Assets and Liabilities—Credit-Related Commitments.”

Capital Adequacy

The following discussion and the figures contained herein are based upon the Korean GAAP statistics prepared by us for the purposes of regulatory reporting in Korea. We are subject to the capital adequacy requirements of the Financial Supervisory Commission, which have been formulated based on, and are consistent in all material respects with, the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in 1988. We are required to maintain a minimum ratio of total capital to risk-weighted assets, as determined by a specified formula, of 8.0%. The Bank for International Settlements has recently adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivative instruments held by banks. These changes have become applicable to most Korean banks commencing in 2002. See “Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Capital Adequacy.”

At the time of merger, we issued 179,775,233 shares of our common stock to holders of former Kookmin Bank shares such that they received one of our shares for every 1.688346 shares of former Kookmin Bank they owned. The number of shares of common stock issued and per share information prior to November 1, 2001 discussed below have been restated for the merger ratios.

As of December 31, 2001, our capital adequacy ratio was 10.23%, compared to 11.18% as of December 31, 2000. Our capital increased substantially in 2001 as a result of the merger with H&CB, in connection with which we issued 119,922,229 shares of our common stock to former stockholders of H&CB and we acquired a significant amount of subordinated debt from H&CB. However, the increase in our capital was outpaced by the increase in our risk-weighted assets resulting from the merger.

As of December 31, 2000, our capital adequacy ratio was 11.18% compared to 11.38% as of December 31, 1999. Despite the increase in net income and the increase of capital through a rights offering by Kookmin Credit Card, our Tier I capital adequacy ratio decreased from 7.26% as of December 31, 1999 to 6.82% as of December 31, 2000 due to increases in deposits and an increase in assets of Kookmin Credit Card.

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 1999, 2000 and 2001.

	As of December 31,		
	1999	2000	2001
	(in billions of Won, except percentage)		
Tier I capital:	₩ 3,301	₩ 3,843	₩ 8,141
Paid-in capital	1,698	1,698	1,498
Capital reserves	1,408	1,470	5,568
Retained earnings	263	708	1,516
Minority interests in consolidated subsidiaries	21	215	309
Consolidated adjustment credit/debit	(27)	—	—
Others	(62)	(248)	(750)
Tier II capital:	1,871	2,455	3,653
Revaluation reserves	177	177	177
Allowance for loan losses (1)	277	349	720
Subordinated debt (2)	1,417	1,919	2,715
Valuation gain on investment securities	—	10	41
Investment in non-consolidated equity investees (3)	—	—	(43)
Total core and supplementary capital	5,172	6,298	11,751
Risk-weighted assets:	45,435	56,347	114,849
On-balance sheet	43,083	52,703	108,695
Off-balance sheet	2,352	3,644	6,154
Capital adequacy ratio:	11.38%	11.18%	10.23%
Tier I capital	7.26	6.82	7.09
Tier II capital	4.12	4.36	3.18

- (1) Reserves for possible loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.
- (2) The subordinated debt representing 50% of Tier I capital is used in the calculation of Tier II capital.
- (3) Equity investees engaged in banking and financial activities of which we own more than 15% are deducted from total capital, not deducted directly from Tier I and Tier II pursuant to the guidelines of the Financial Supervisory Service.

During 1999, our total paid-in capital increased by ₩316 billion to ₩1,698 billion, an increase of 22.9% from the previous year. This was a result of (1) the sale of 17,768,870 shares of our common stock at ₩20,260 per share to Goldman Sachs Capital Chosun, the selling stockholder in this offering, on June 14, 1999 and (2) the rights offering of 19,731,767 shares of common stock at ₩19,247 per share on November 19, 1999.

In addition, simultaneously with the sale of our common stock to Goldman Sachs Capital Chosun on June 14, 1999, we also issued US\$200 million principal amount of subordinated convertible bonds with the then conversion price of ₩14,200 per share to an affiliate of Goldman Sachs Capital Chosun, which conversion price was subsequently adjusted to ₩22,124 per share. To date, no conversion has occurred on these subordinated convertible bonds.

On June 22, 1998, Korea Long Term Credit Bank issued US\$25 million principal amount of subordinated convertible bonds with the then conversion price of ₩5,000 per share to International Finance Corporation, which conversion price was subsequently adjusted to ₩14,895 per share. We assumed these convertible bonds through our merger with Korea Long Term Credit Bank. In each of February and July 2001, we issued 1,176,601 new shares of our common stock to International Finance Corporation pursuant to the exercise of its conversion rights in respect of US\$12.5 million principal amount of these convertible bonds. Accordingly, no such convertible bonds are outstanding.

As of the date of our acquisition of DaeDong Bank in June 1998, there was a net shortfall of ₩1,687 billion between the value of the assets we acquired and the value of the liabilities we assumed. We received compensation for this deficiency and for deterioration of quality of assets assumed by us, in the aggregate amount of ₩1,848 billion from the Korea Deposit Insurance Corporation in the form of cash and debt securities issued by the Korea Deposit Insurance Corporation and ₩218 billion from the Korea Asset Management Corporation in the form of cash and debt securities. We also suffered a 0.95% decrease in our capital adequacy ratio resulting from the acquisition. To restore the capital adequacy ratio, we received compensation from the Korean government through the issuance of 40,000,000 shares of our non-cumulative, non-participating redeemable preferred stock, with a par value of ₩5,000 per share, to the Korea Deposit Insurance Corporation for ₩200 billion and the issuance of ₩100 billion of our subordinated notes to Korea Development Bank.

In January 2000, we repurchased 8,000,000 shares of preferred stock at par and, as a result, 32,000,000 shares were still held by the Korea Deposit Insurance Corporation at December 31, 2000. In January 2001, we repurchased additional 8,000,000 shares of preferred stock at par, which reduced our capital base and our capital adequacy ratios by 0.07% based on our financial condition as of December 31, 2000. In addition, we repurchased the remaining 24,000,000 shares of preferred stock at par in 2001, prior to the merger with H&CB.

In connection with our merger with H&CB, we assumed certain assets that H&CB had received from the Korea Asset Management Corporation and Korea Deposit Insurance Corporation in connection with its acquisition of DongNam Bank in June 1998.

As compensation for the acquisition, H&CB received payments of:

- ₩10 billion in cash from the Korea Asset Management Corporation and ₩117 billion of bonds issued by the Korea Asset Management Corporation; and
- ₩681 billion of bonds issued by the Korea Deposit Insurance Corporation.

In addition, to make up for the decrease in H&CB's capital ratio resulting from the acquisition of DongNam Bank, in December 1998, the Korean government, through the Korea Deposit Insurance Corporation, purchased:

- 59,300,000 shares of H&CB's convertible non-voting preferred stock for an aggregate purchase price of ₩297 billion, the proceeds from which H&CB used to purchase ₩297 billion of bonds from the Korea Deposit Insurance Corporation; and
- ₩148 billion of H&CB's subordinated notes due March 2004, for which H&CB received ₩148 billion of government bonds.

Prior to the merger, H&CB repurchased all of the preferred stock it had previously issued to the Korea Deposit Insurance Corporation.

Recent Accounting Pronouncements

SFAS No. 141, "Business Combinations"

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," which establishes financial accounting and reporting for all business combinations. SFAS No. 141 requires all business combinations to be accounted for by a single method, the purchase method, and that intangible assets be recognized apart from goodwill if they meet certain criteria. The statement also requires the disclosure of the primary reasons for the business combination and the allocation of the purchase price to the assets acquired and liabilities assumed by major balance sheet caption. The statement is effective for all business combinations initiated after June 30, 2001. We adopted the provisions of

SFAS No. 141, as required, in accounting for our merger with H&CB. See “—Overview—Financial Impact of the Merger” and “Item 8. Financial Information—Unaudited Pro Forma Combined Statement of Income Data—Merger with H&CB.”

SFAS No. 142, “Goodwill and Other Intangible Assets”

In June 2001, the FASB issued SFAS No. 142, “Goodwill and Other Intangible Assets,” which primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The statement became effective for us on January 1, 2002. SFAS No. 142 requires that goodwill be recorded at the reporting unit level, which is defined as an operating segment or one level below. SFAS No. 142 prohibits the amortization of goodwill but requires that it be tested for impairment at least annually at the reporting unit level. The impairment test is to be performed in two phases. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of a reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. We do not anticipate that an impairment charge will be recorded as a result of the adoption of SFAS No. 142. The net carrying amount of goodwill as of December 31, 2001 was ₩162 billion. We have ceased amortizing goodwill effective January 1, 2002. For the year ended December 31, 2001, our goodwill amortization expense was ₩13.5 billion.

SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets”

In October 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets,” which supercedes SFAS No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of.” The new standard maintains the previous accounting for the impairment or disposal of long-lived assets, but also establishes more restrictive criteria that have to be met to classify such an asset as “held for sale.” SFAS No. 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported. This standard is effective for fiscal years beginning after December 15, 2001. We do not expect that the adoption of this statement will have a material impact on our results of operations.

Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of ₩7 billion. Substantial control is deemed to exist when the investor is the largest stockholder and owns more than 30% of the investee’s voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP, financial statements of our trust accounts on which we guarantee a fixed rate of return and/or the repayment of principal are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as part of our consolidated assets and liabilities, and revenues and expenses generated from such third-party assets are reflected in our consolidated statement of operations. Activities between trusts and us are eliminated in consolidation.

Until December 31, 1998, our financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea issued by the Financial Supervisory Commission, as modified by the accounting and reporting guidelines prescribed by the Office of Banking Supervision. Beginning January 1, 1999, the financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Commission.

Because of significant changes in Korean GAAP which were applied by us in 1999, 2000 and 2001, the financial information included herein for those years is not directly comparable with previous periods. We have included narrative disclosure in the footnotes to more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

- Trading and investment securities;
- Deferred taxation;
- Guarantees and acceptances (including allowances for losses); and
- Provision for loan losses.

Consolidated Income Statement Data under Korean GAAP

	Year ended December 31,					
	1997	1998	1999	2000	2001 (1)	2001 (1)(2)
	(in billions of Won, except per share data)					(in millions of US\$, except per share data)
Interest income	₩4,942	₩6,062	₩6,853	₩6,788	₩8,215	\$6,255
Interest expense	3,938	4,762	5,029	4,947	5,502	4,189
Net interest income	1,004	1,300	1,824	1,841	2,713	2,066
Provision for possible loan losses (3)	—	—	1,387	916	1,414	1,077
Net interest income after provision for possible loan losses	1,004	1,300	437	925	1,299	989
Non-interest revenue (4)	1,822	2,353	2,886	3,753	5,415	4,123
Non-interest expense (5)	2,563	3,754	3,131	3,514	5,178	3,943
Operating income	263	(101)	192	1,164	1,536	1,169
Non-operating loss, net	(123)	(344)	(88)	(30)	(180)	(137)
Net income before income tax expense	140	(445)	104	1,134	1,356	1,032
Income tax expense (6)	20	1	121	448	560	426
Net income (loss) before consolidation adjustment	120	(446)	(17)	686	796	606
Minority interest in earnings of consolidated subsidiaries	(8)	135	(4)	(94)	(121)	(92)
Other (7)	—	(11)	(7)	—	162	123
Net income	<u>₩ 112</u>	<u>₩ (322)</u>	<u>₩ (28)</u>	<u>₩ 592</u>	<u>₩ 837</u>	<u>\$ 637</u>
Per common share data:						
Earnings per share-basic	₩1,923	₩(3,296)	₩ (184)	₩3,330	₩4,188	\$ 3.19
Earnings per share-diluted (8)	1,923	(3,218)	(123)	2,849	4,003	3.05
Cash dividends per common share (9)	—	200	50	500	100	0.08
Stock dividends per common share	140	—	—	—	300	0.23

- (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 ₩1,313.5 to US\$1.00, the noon buying rate in effect on December 31, 2001 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) The provision for possible loan losses was included in non-interest expense in 1997 and 1998. The amount of the provision was ₩265 billion and ₩1,274 billion, respectively. The methodology we use to calculate the provision for loan losses was revised in 1999, which resulted in the recognition of a significantly higher provision. The revised guidelines require us to consider not only delinquencies and bankruptcies but also a borrower's future capacity to repay, including the borrower's management, current financial position and future cash flows.
- (4) Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.
- (5) Non-interest expense is composed of fees and commissions paid or payable, general and administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.
- (6) Prior to 1999, there was no requirement to use a deferred method of accounting for income taxes. The cumulative effect of adopting the revised standards as of January 1, 1999 was to debit opening retained earnings by ₩26 billion, which reflected the net deferred tax liabilities that would have been recognized as of December 31, 1998. We did not restate prior periods. The effect of adopting the revised standards for the year ended December 31, 1999 was to decrease net income by ₩28 billion and to recognize deferred tax liabilities of ₩54 billion as of December 31, 1999.

- (7) Prior to 2000, we recorded changes of equity interest in subsidiaries due to additional share issuance by these companies as consolidation adjustments and amortized the balances over 5 years using the straight-line method. From 2000, in accordance with the revised accounting standards for the consolidated financial statements, such changes of equity interest are recorded in consolidated capital surplus.
- (8) A diluted earnings per share measure was only required to be disclosed from 1999. Prior to this, only a basic earnings per share amount was required to be disclosed.
- (9) Under Korean GAAP beginning in 1997, dividends declared after the year-end are recorded in the period to which they relate. Prior to 1997, dividends were recorded in the period in which they were declared. The above ratios represent the periods to which the dividends relate.

Consolidated Balance Sheet Data under Korean GAAP

	As of December 31,					
	1997	1998	1999	2000	2001 (1)	2001 (1)(2)
	(in billions of Won)					(in millions of US\$)
Cash and cash equivalents	₩ 4,343	₩ 5,766	₩ 5,317	₩ 6,403	₩ 7,843	\$ 5,971
Foreign exchange (3)	850	764	—	—	—	—
Loans (4)	28,971	37,659	45,587	60,462	118,982	90,584
Less: allowance for doubtful accounts (5)	—	—	(2,367)	(2,250)	(2,641)	(2,011)
Call loans (6)	484	1,021	—	—	—	—
Trading securities (7)	—	—	4,250	3,806	11,634	8,857
Investment securities (7)	13,727	23,637	14,528	16,839	26,653	20,292
Customers' liabilities on guarantees (8)	908	2,641	—	—	—	—
Premises and equipment, net . . .	2,342	2,847	1,621	1,452	3,291	2,506
Other assets (9)	6,520	7,584	4,015	4,386	6,837	5,205
Consolidation adjustment debit	—	56	29	—	—	—
Total assets	58,145	81,975	72,980	91,098	172,599	131,404
Deposits	37,234	42,547	44,538	57,979	120,449	91,701
Borrowings (10)	10,678	24,273	10,315	9,649	17,073	12,998
Call money (11)	325	466	—	—	—	—
Guarantees outstanding (8)	908	2,641	—	—	—	—
Allowance for possible loan losses (12)	2,317	3,809	—	—	—	—
Debentures	—	—	9,313	11,648	13,861	10,553
Other liabilities (13)	4,555	5,240	5,305	7,571	11,939	9,089
Total liabilities	56,017	78,976	69,471	86,847	163,322	124,341
Minority interests in consolidated subsidiaries	48	32	21	215	309	235
Stockholders' equity	2,080	2,967	3,488	4,036	8,968	6,828
Total liabilities, minority interest and stockholders' equity	₩58,145	₩81,975	₩72,980	₩91,098	₩172,599	\$131,404

- (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 ₩1,313.5 to US\$1.00, the noon buying rate in effect on December 31, 2001 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies. In 1999 and 2000, holdings of foreign currency and bills bought in foreign currencies were included in cash and due from banks and loans, respectively. The amount of foreign currency and bills bought in foreign currencies as of December 31, 1999 was ₩60 billion and ₩827 billion, respectively. As of December 31, 2000, the amount was ₩74 billion and ₩925 billion,

respectively. As of December 31, 2001, the amount was ₩147 billion and ₩1,006 billion, respectively.

- (4) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.
- (5) The amount of allowance for doubtful accounts as of December 31, 1997 and 1998 was ₩429 billion, and ₩2,273 billion, respectively. The allowance was disclosed within allowance for possible loan losses until 1998. The allowance for loan losses prior to December 31, 1999 was provided based on credit risk classifications of the loan portfolio in accordance with guidelines issued by the Financial Supervisory Commission. Estimated loan losses were determined by applying certain percentages to each credit risk classification. Under revised Korean GAAP, effective as of December 31, 1999, the Financial Supervisory Commission requires allowances to fully reflect a borrower's future capacity to repay using forward-looking criteria, rather than solely past performance, by applying the internal credit grading system developed by the reporting bank. The forward-looking criteria are applied only to large-sized corporate loans (loan exposure greater than ₩3 billion), while consumer loans and small-sized corporate loans were classified by considering number of days delinquent, secured amounts, and possibility of collection. Pursuant to the regulations promulgated by the Financial Supervisory Commission, loans are classified as normal, precautionary, substandard, doubtful or estimated loss, and the allowance for loan losses is determined by applying a percentage within a certain range to those classifications.
- (6) Call loans are included in loans as of December 31, 1999, 2000 and 2001. The amount of call loans at those dates was ₩377 billion, ₩991 billion and ₩1,497 billion, respectively.
- (7) Prior to 1998, there was no requirement to separately account for trading and investment securities. Securities are all included in investment securities in the above table for those years. Under Korean GAAP effective until the end of 1997, equity securities denominated in Won were stated at the lower of cost or market value (or the investor's share of the investee's net book value for non-listed companies). The resulting allowance was included in allowance for possible loan losses. The amount of such allowance as of December 31, 1997 was ₩317 billion. Debt securities denominated in Won were stated at acquisition cost. Under Korean GAAP effective in 1998 and until the following revision, debt securities denominated in Won were stated at acquisition cost. We accounted for all other debt and marketable equity securities on a basis similar to U.S. GAAP. The effect of changing the valuation method for equity securities from the lower of cost or market value to market value was to decrease the net loss in 1998 by ₩1 billion. Under Korean GAAP effective for periods beginning after December 12, 1998, all debt securities and marketable equity securities are accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.
- (8) Guarantees and acceptances for which the amounts were determined had been recorded as customers' liabilities on guarantees and guarantees outstanding on the balance sheet until 1998. From 1999, such amounts do not appear on the balance sheet but are recorded as an off-balance sheet item in the notes to our consolidated financial statements. The amounts of guarantees and acceptances at December 31, 1999, 2000 and 2001, were ₩2,111 billion, ₩3,060 billion, and ₩2,825 billion, respectively.
- (9) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network).
Until 1998, leasehold deposits were recorded as premises and equipment. From 1999, such amounts are recorded as other assets on the balance sheet. Accumulated depreciation was recorded within allowance for possible loan losses until 1998, but from 1999 such amounts are recorded as a deduction from premises and equipment. The amounts of accumulated depreciation as of December 31, 1997 and 1998 were ₩373 billion and ₩471 billion, respectively. Credit card accounts, payments on guarantees and purchases of securities under agreements to resell (resale agreements) were included in other assets until 1998. The amount of credit card loans was ₩2,205 billion, ₩1,813 billion, ₩2,669 billion, ₩6,214 billion and ₩14,089 billion as of December 31, 1997, 1998, 1999, 2000 and 2001, respectively. The amount of payments on guarantees was ₩116 billion, ₩285 billion, ₩333 billion, ₩241 billion and ₩200 billion as of December 31, 1997, 1998, 1999, 2000 and 2001, respectively. The amount of resale agreements was ₩428 billion, ₩146 billion, ₩100 billion, ₩1,500 billion and ₩640 billion as of December 31, 1997, 1998, 1999, 2000 and 2001, respectively.
- (10) Borrowings consist mainly of borrowings from the Bank of Korea, the Korean government and other banking institutions.
- (11) Call money is included in borrowings at December 31, 1999, 2000 and 2001. The balance of call money as of those dates was ₩974 billion, ₩762 billion and ₩2,701 billion, respectively.
- (12) Allowance for possible loan losses and accumulated depreciation were recorded as provisions until 1998. From 1999, however, such amounts are recorded as deductions from the loans and premises and equipment balances, respectively. Unrealized losses on securities were also included as allowance until 1997. From 1998, such amounts are recorded as deductions from the carrying amounts of securities.
- (13) Under Korean GAAP, effective as of December 31, 1999, contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of allowance as of December 31, 1999, 2000 and 2001 were ₩28 billion, ₩37 billion and ₩44 billion, respectively. These amounts are included in other liabilities.

Profitability and Other Ratios under Korean GAAP

	Year ended December 31,				
	1997	1998	1999	2000	2001
	(percentages)				
Net income as a percentage of:					
Average total assets	0.23%	(0.62)%	(0.04)%	0.72%	0.76%
Average stockholders' equity	5.94	(14.22)	(0.93)	15.74	15.47
Dividend payout ratio (1)	13.39	—	—	25.16	14.32
Net interest spread (2)	2.06	2.59	2.40	2.14	2.09
Net interest margin (3)	2.27	2.73	2.73	2.45	2.58
Cost-to-income ratio (4)	90.69	102.76	66.48	62.82	63.51
Cost-to-average assets ratio(5)	5.29	7.31	4.49	4.28	4.67
Fee income as a percentage of total income	12.67	10.76	8.13	13.95	16.07

- (1) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.
- (2) Net interest spread represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
- (3) Net interest margin represents the ratio of net interest income to average interest earning assets.
- (4) Cost-to-income ratio represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
- (5) Cost-to-average assets ratio represents the ratio of non-interest expense to average total assets.

Capital Ratios under Korean GAAP

	As of December 31,				
	1997	1998	1999	2000	2001
	(percentages)				
Total capital adequacy (BIS) ratio (1)	10.77%	10.09%	11.38%	11.18%	10.23%
Tier I	5.64	5.65	7.26	6.82	7.09
Tier II	5.14	4.45	4.12	4.36	3.18
Average stockholders' equity as a percentage of average total assets	3.89	4.40	4.33	4.58	4.88

- (1) The capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission, which guidelines are consistent with the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in all material respects. The computation is prepared on a consolidated Korean GAAP basis.

Credit Portfolio Ratios under Korean GAAP

	As of December 31,			
	1998	1999	2000	2001
	(in billions of Won, except percentages)			
Non-performing loans (1)	₩3,883	₩4,887	₩3,921	₩3,925
Non-performing loans as a percentage of total loans . . .	9.30%	10.72%	6.49%	3.30%
Non-performing loans as a percentage of total assets . .	5.10	6.70	4.30	2.27
Allowance for loan losses as a percentage of non-performing loans	51.48	43.53	48.97	46.96
Allowance for loan losses as a percentage of total loans	5.45	5.19	3.72	2.22
Non-performing credits as a percentage of total credits (2)	9.17	10.52	6.28	3.26
Won loans as a percentage of Won deposits (3)	85.98	92.48	97.86	97.36
Precautionary loans as a percentage of total loans	13.56	6.19	4.71	3.67
Precautionary and below loans as a percentage of total loans (4)	22.86	16.91	11.20	6.97
Precautionary and below loans as a percentage of total assets (4)	12.53	10.56	7.43	4.80
Allowance for loan losses as a percentage of precautionary and below loans (4)	22.14	28.28	29.46	25.24

- (1) Non-performing loans are defined in accordance with regulatory guidance in Korea. Until 1998, we classified credit quality into the following five categories according to standards defined by the Office of Banking Supervision: normal, precautionary, substandard, doubtful and estimated loss. Non-performing loans were defined as loans classified as substandard, doubtful and estimated loss. In 1999, in addition to classifying credit quality into the five categories in accordance with standards defined by the Financial Supervisory Commission, we also took into account the repayment capability of borrowers. Since 1999, the Financial Supervisory Commission has changed the definition of non-performing loans based on new classification criteria for the soundness of a bank's assets. Non-performing loans are still defined as substandard, doubtful and estimated loss, but certain adjustments are now made to substandard credits. Since 2000, regardless of default on interest payments, loans to workout companies are classified using the same strict standards as those applied to the other companies. See "Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks".
- (2) Credits include loans and confirmed guarantees and acceptances provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts. Loans, as defined for Korean GAAP purposes, include loans provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts.
- (3) Under Korean GAAP, Won loans do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower.
- (4) As defined by the Financial Supervisory Commission.

Reconciliation with Korean GAAP

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in Note 1 to our consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and stockholders' equity of the consolidated statements with Korean GAAP.

	<u>2001</u>
	<u>(in millions of Won)</u>
U.S. GAAP net income	₩ 991,876
1. Provision for loan losses, guarantees and acceptances	(150,541)
2. Sale of loans to the Korea Asset Management Corporation	(3,242)
3. Deferred loan costs	(27,840)
4. Reversal of accrued interest on delinquent loans	(7,661)
5. Securities and hedging derivatives accounting	72,787
6. Other loan sale accounting	(176,383)
8. Merger with Korea Long Term Credit Bank	(1,515)
9. Lease conversion	(13,898)
11. Reversal of amortization of present value discounts	62,995
12. Foreign currency translation	22,576
13. Merger with H&CB	(70,145)
14. Debt equity swap of Kookmin Leasing Co., Ltd.	76,933
15. Minority interest	(36,333)
16. Cumulative effect of accounting changes	18,971
17. Others	(6,405)
Total of adjustments	(239,701)
Tax effect of adjustments	84,700
Korean GAAP net income	<u>₩ 836,875</u>
U.S. GAAP stockholders' equity	<u>₩7,634,751</u>
1. Provision for loan losses, guarantees and acceptances	(607,854)
2. Sale of loans to the Korea Asset Management Corporation	(22,453)
3. Deferred loan costs	(65,407)
4. Reversal of accrued interest on delinquent loans	9,105
5. Securities and hedging derivatives accounting	20,271
6. Other loan sale accounting	(279,409)
7. Fixed assets	322,894
8. Merger with Korea Long Term Credit Bank	385,381
9. Lease conversion	(14,623)
10. Reversal of dividends	(29,967)
11. Reversal of amortization of present value discounts	106,307
13. Merger with H&CB	1,081,909
14. Debt equity swap of Kookmin Leasing Co., Ltd.	76,933
15. Minority interest	309,129
16. Cumulative effect of accounting changes	18,971
17. Others	44,283
Total of adjustments	1,355,470
Tax effect of adjustments	286,735
Korean GAAP stockholders' equity	<u>₩9,276,956</u>

The following is a summary of the significant adjustments made to consolidated net income and stockholders' equity to reconcile the U.S. GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We have established the U.S. GAAP loan loss allowance for impaired non-homogeneous loans based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair value of the collateral if the loan is collateral dependent or (3) observable market prices if available. For small balance homogeneous impaired loan portfolios and consumer loans, we have established the allowance for the loan losses based on an evaluation of the historical performance of the loan portfolios. Allowance for loans that are not impaired is based principally on historical migration patterns. Other factors that management considers when establishing reserves for loans include, but are not limited to, global and local economic events, delinquencies, changes in underwriting and changes in credit monitoring policies. See "Item 4. Information on the Company—Assets and Liabilities—Loan Portfolio—Provisioning Policy."

Under Korean GAAP, the allowance for loan losses is generally established based on the classification guidelines promulgated by the Financial Supervisory Commission, which require that the minimum allowance be established based on the classification of the loan. We used these guidelines in establishing the minimum reserves. Starting in 1999, we also established voluntary additional reserves on the individual credits to develop a certain level of consistency with international banking practices. Our reserve is established based on the following percentages as of December 31, 2001:

	<u>2001</u>
	(Percentages)
Normal	0.5
Precautionary	2 to 19
Substandard	20 to 49
Doubtful	50 to 99
Estimated loss	100

This adjustment also reflects the offsetting effects of (1) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (2) the deconsolidation of certain securitized loans and related reserves, which we recorded as sales under Korean GAAP.

2. Prior to fiscal year 1999, we sold a number of non-performing loans to the Korea Asset Management Corporation. The Korea Asset Management Corporation can put back certain loans to us when the performance requirements of such loans are not met. Under U.S. GAAP, we have recognized estimated possible losses as recourse liabilities at the date of sales which are periodically updated. These estimates are based on portfolio loss history and character of certain specific credits. Under Korean GAAP, recognition of probable future losses related to the put-back options was not required. Effective January 1, 2001, recognition of probable future losses was required with respect to specific credits.
3. Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized as a yield adjustment over the life of the related loans, net of any related fees received. These costs relate to direct loan origination activities performed by the Bank which include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. Korean GAAP requires these origination fees to be recognized in income or expense when received or paid and does not provide for deferral.

4. For U.S. GAAP reporting purposes, we have generally recorded interest income on loans that are past due greater than one day on a cash basis. Under Korean GAAP, we accrued interest income on certain loans that were past due.
5. Under U.S. GAAP, decreases in fair value with respect to securities classified as available-for-sale or held-to-maturity below the cost basis of an individual security and deemed to be other than temporary must be written off through a charge to income. In determining whether a decrease in fair value is other than temporary, the following are considered: the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, such a decrease must be determined to be permanent before a charge is made to income.

Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting are less prescriptive. None of the derivative hedge accounting relationships that we have established under Korean GAAP qualified for hedge accounting under U.S. GAAP. This adjustment reflects the effects of the reversal of the hedge accounting treatment under Korean GAAP.

6. Under U.S. GAAP, the transfer of loans is recorded as a sale if specific and prescriptive criteria are met relating to the transferor's relinquishing control. If these criteria are not met, the transfer is treated as a secured borrowing. Certain loan transfers (including those in connection with asset securitization transactions) that qualified for derecognition as sales under Korean GAAP did not meet U.S. GAAP criteria for derecognition as sales.
7. In 1972, 1979, 1983 and 1997, we revalued certain fixed assets in accordance with Korean GAAP with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As part of our normal operations, we occasionally dispose of fixed assets. Due to the difference in carrying value under U.S. GAAP and Korean GAAP noted above, there was an adjustment to reflect the gain or loss from the U.S. GAAP historic cost basis as opposed to the Korean GAAP carrying value.

The estimated useful lives of fixed assets under Korean GAAP are different from U.S. GAAP. As a result, depreciation expense was adjusted to reflect this difference.

8. In accordance with Korean GAAP, the value of consideration was based on the price of our common stock on the date that the transaction was consummated. In addition, the assets were recorded at their carrying values. This transaction created negative goodwill under Korean GAAP, which was recorded in stockholders' equity. The application of U.S. GAAP resulted in goodwill because of a difference in the measurement of the purchase price and recording the related assets at fair value. The income statement adjustment represents the amortization of goodwill under U.S. GAAP, net of the accretion to income of the difference between book value and fair value on the net assets acquired.

9. As lessors, we recorded certain equipment financing as operating leases under Korean GAAP. Under U.S. GAAP, such leases are classified as capital leases. As such, the equipment subject to U.S. GAAP capital lease requirements are removed from the balance sheet and replaced with the net investment in the respective leases. The difference between U.S. and Korean GAAP relates to the difference between the depreciation expense and rental income that is recorded under Korean GAAP versus the amortization of the unearned income related to the lease receivable that is recorded under U.S. GAAP.

Under Korean GAAP, foreign exchange gains and losses from translating foreign debts incurred for acquisition of operating lease assets are deferred and amortized over the life of the related operating leases. Under U.S. GAAP, foreign exchange gains and losses are recorded as a period expense in the income statement.

10. Dividends payable are recognized in the period in which they are declared and approved for U.S. GAAP. Under Korean GAAP, they are recognized in the period in which the ex-dividend date falls.
11. Under Korean GAAP, loans that are modified through troubled debt restructurings are carried at the lower of (1) the book value of the loan prior to restructuring and (2) the present value of the restructured loan. If carried at present value, the related present value discount is accreted to income over the remaining term of the restructured loan. This treatment is not permitted under U.S. GAAP and its reversal is reflected through this adjustment.
12. U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income. Under Korean GAAP, the portion of unrealized gains and losses on available for sale securities arising from foreign currency translation are recognized in earnings.
13. Under Korean GAAP, the value of consideration was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Korea Stock Exchange two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in negative goodwill due to the fact that the consideration paid was less than the fair value of H&CB's net assets acquired. Under Korean GAAP, goodwill was created because the value of consideration measured based on the consummation date was significantly higher. The income statement adjustment primarily reflects the following:
 - (a) Reversal of goodwill amortization that was recorded under Korean GAAP.
 - (b) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.
 - (c) Accretion to income or amortization to expense of the difference between the fair value and book values of the assets acquired and liabilities assumed.
14. We recorded extraordinary gains as a result of the troubled debt restructuring of Kookmin Leasing Co., Ltd. in 2000 and 2001. Under U.S. GAAP, gain is not recognized for troubled debt restructuring involving a modification of payment terms, such as extension of maturity or reduction in interest rates, unless the total future cash payments specified by the new terms of the borrowing are less than the carrying amount of the borrowing. Under Korean GAAP, gain is recognized based on the difference between the carrying amount and the present value of the future cash flows of the borrowing, taking into effect the modification in payment terms. The difference between the carrying amount and the present value of future cash flows of the restructured borrowing will be amortized to interest expense over the remaining outstanding periods. A portion of the extraordinary gain recorded under Korean GAAP was reversed as a result of applying the principles of U.S. GAAP.

15. The results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, allocation to minority of their share of the converted results of the respective subsidiaries has been affected.

Under Korean GAAP, minority interest is treated as a component of stockholders' equity. Under U.S. GAAP, minority interest is not considered part of stockholders' equity and is disclosed in the consolidated balance sheet between the liability section and the stockholders' equity section.

16. Under U.S. GAAP, we recorded cumulative effect type adjustments, net of tax, in earnings and accumulated other comprehensive income, resulting mainly from reclassification of derivatives originally qualified as accounting hedges to trading derivatives after the adoption of SFAS No. 133.
17. This adjustment reflects the effect of miscellaneous items which are not individually material.

Recent Developments

Results of operations for the first quarter of 2002 compared to the first quarter of 2001

Neither we nor our subsidiaries, including Kookmin Credit Card Co., Ltd., are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. The unaudited and non-consolidated financial information shown below was prepared pursuant to Korean GAAP and was derived from the non-consolidated quarterly financial statements included in this document. Korean GAAP differs in significant respects from U.S. GAAP. See “—Selected Financial Information Under Korean GAAP” and “—Reconciliation with Korean GAAP.” As a result, provision and allowance levels reflected under Korean GAAP in our results for the three months ended March 31, 2001 and 2002 may differ significantly from comparable figures under U.S. GAAP for these and future periods. In addition, the financial information below is non-consolidated and therefore does not reflect the results of operations of our subsidiaries other than those accounted for under the equity method. As a result, this information is not comparable with the other financial information presented in this document. Furthermore, the financial information below for the first quarter of 2002 reflects the results of the former operations of H&CB, with which we merged effective November 1, 2001. Accordingly, such financial information is not comparable to the financial information below for the first quarter of 2001. Results of operations for the first quarter of 2002 may not be indicative of results of operations for the full year 2002.

Non-consolidated first-quarter Korean GAAP income statement data

	Quarter Ended March 31,		
	2001	2002	2002/2001
	(in billions of Won)		(% change)
Interest income	₩1,672	₩2,540	51.9%
Interest expense	1,119	1,497	33.8
Net interest income	553	1,043	88.6
Provision for loan losses	175	191	9.1
Net interest income after provision for loan losses . .	378	852	125.4
Non-interest income (1)	1,462	1,041	(28.8)
Non-interest expense (1)	1,603	1,124	(29.9)
Operating income	237	769	224.5
Non-operating income, net	118	186	57.6
Income before income tax expense	355	955	169.0
Income tax expense	109	283	159.6
Net income	<u>₩ 246</u>	<u>₩ 672</u>	<u>173.2%</u>

(1) Presented after netting gains against losses on foreign currency transactions and derivative transactions. Our non-consolidated financial statements record these items on a gross basis.

Non-consolidated first-quarter Korean GAAP balance sheet data

	As of March 31,	
	2001	2002
	(in billions of Won)	
Cash and cash equivalents	₩ 4,047	₩ 6,856
Loans, net of allowance for loan losses (1)	50,849	112,413
Trading securities	2,916	6,082
Investment securities	20,631	26,991
Premises and equipment	1,252	2,221
Other assets	6,251	5,930
Total assets	85,946	160,493
Deposits	58,703	119,544
Borrowings	7,746	11,481
Debentures	6,146	9,953
Other liabilities	8,853	9,762
Total liabilities	81,448	150,740
Total stockholders' equity	4,498	9,753
Total liabilities and stockholders' equity	₩85,946	₩160,493

(1) Loans, before allowance for loan losses, were ₩52,623 billion and ₩114,752 billion as of March 31, 2001 and 2002, respectively.

Our non-consolidated net interest income increased by 88.6% from ₩553 billion in the first quarter of 2001 to ₩1,043 billion in the first quarter of 2002, as a result of a 51.9% increase in non-consolidated interest income which more than offset a 33.8% increase in a non-consolidated interest expense.

The 51.9% increase in non-consolidated interest income from 1,672 billion in the first quarter of 2001 to ₩2,540 billion in the first quarter of 2002 was primarily due to a 75.5% increase in interest on loans from ₩1,194 billion in the first quarter of 2001 to ₩2,096 billion in the first quarter of 2002. This increase was attributable to an increase in the average volume of our loans, principally mortgage and home equity loans and other consumer loans, as a result of the merger with H&CB. The increase in average volume was partially offset by a decline in the average yield on our loans as a result of the general decline in market interest rates in Korea throughout 2001.

The 33.8% increase in non-consolidated interest expense from ₩1,119 billion in the first quarter of 2001 to ₩1,497 billion in the first quarter of 2002 was primarily due to a 39.7% increase in interest on deposits from ₩854 billion in the first quarter of 2001 to ₩1,193 billion in the first quarter of 2002. This increase was attributable to an increase in the average volume of our deposits, principally time deposits and savings deposits, which resulted from both our marketing efforts and the merger with H&CB. The increase in average volume was partially offset by a decline in the average cost of our deposits as a result of the general decline in market interest rates in Korea throughout 2001.

Our non-consolidated net interest margin increased from 2.93% in the first quarter of 2001 to 3.68% in the first quarter of 2002, as the spread between the average yield on our loans and the average cost of our deposits increased for the first quarter of 2002 compared to the first quarter of 2001.

Our non-consolidated provision for loan losses increased 9.1% from ₩175 billion in the first quarter of 2001 to ₩191 billion in the first quarter of 2002 due principally to the growth of our loan portfolio, particularly retail loans. Non-performing loans (defined for Korean GAAP purposes as loans

classified as substandard or below) as a percentage of our total loans decreased from 6.58% as of March 31, 2001 to 3.14% as of March 31, 2002, while allowance for loan losses as a percentage of our total loans decreased from 3.44% as of March 31, 2001 to 2.01% as of March 31, 2002.

Our non-consolidated non-interest income increased by 91.3% from ₩344 billion in the first quarter of 2001 to ₩658 billion in the first quarter of 2002, primarily as a result of a 442.2% increase in fee and commission income from ₩83 billion in the first quarter of 2001 to ₩450 billion in the first quarter of 2002. This increase was attributable principally to the merger with H&CB, as a result of which we received credit card fees and commissions from the BC Card operations, as well as management fees in respect of the National Housing Fund, in the first quarter of 2002. The increase in fee and commission income was partially offset by a 96.0% decrease in net gain on foreign currency transactions from ₩100 billion in the first quarter of 2001 to ₩4 billion in the first quarter of 2002.

Our non-consolidated non-interest expense increased by 53.1% from ₩484 billion in the first quarter of 2001 to ₩741 billion in the first quarter of 2002, primarily as a result of an 89.1% increase in general and administrative expenses from ₩294 billion in the first quarter of 2001 to ₩556 billion in the first quarter of 2002. This increase was attributable principally to the merger with H&CB, as a result of which our salaries and wages increased. The increase in general and administrative expenses was partially offset by a decrease in net loss on derivatives, from a ₩69 billion net loss in the first quarter of 2001 to a ₩28 billion net gain in the first quarter of 2002, which we recorded as non-interest income.

Our non-consolidated non-operating income increased 57.6% from ₩118 billion in the first quarter of 2001 to ₩186 billion in the first quarter of 2002. This increase was attributable primarily to a 877.8% increase in realized gain on investment securities from ₩9 billion in the first quarter of 2001 to ₩88 billion in the first quarter of 2002, which was partially offset by ₩61 billion of new impairment losses on equity and debt investment securities in the first quarter of 2002.

Income tax expense increased 159.6% from ₩109 billion in the first quarter of 2001 to ₩283 billion in the first quarter of 2002, as a result of an increase in our taxable income. The statutory income tax rate applicable to us was approximately 30.8% in the first quarter of 2001 and 29.7% in the first quarter of 2002. Our effective tax rate was 30.76% in the first quarter of 2001 and 29.65% in the first quarter of 2002.

As a result of the above, our non-consolidated net income increased 173.2% from ₩246 billion in the first quarter of 2001 to ₩672 billion in the first quarter of 2002.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors

Our board of directors, which currently consists of three executive directors and nine non-executive directors, has the ultimate responsibility for the management of our affairs.

Our articles of incorporation provide for no more than 30 directors and the number of executive directors must be less than 50% of the total number of directors. Each executive director has been elected for a three-year term of office, and each non-executive director has been elected for a one-year term. Terms are renewable and are subject to the Korean Commercial Code, the Bank Act and related regulations.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of the chairman or one-third or more of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 9-1, 2-ga, Namdaemun-ro, Jung-gu, Seoul 100-703, Korea.

Executive Directors

Our executive directors are as follows.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Date Term Ends</u>
Sang Hoon Kim	60	Chairman	November 1, 2001	October 31, 2004
Jung Tae Kim	54	President and Chief Executive Officer	November 1, 2001	October 31, 2004
Choul Ju Lee	62	Auditor and Executive Director	November 1, 2001	March 21, 2005

None of the executive directors have any significant activities outside Kookmin Bank.

Sang Hoon Kim is the Chairman. He joined Kookmin Bank in 2000 as the President and Chief Executive Officer and was elected the Chairman in 2001. Prior to joining Kookmin Bank, he served as the Deputy Governor of the Financial Supervisory Service. Mr. Kim also worked as a general manager for the Bank of Korea and as an assistant governor for the Office of Bank Supervision, which was integrated into the Financial Supervisory Service in 1999. Mr. Kim holds a B.A. in law from Seoul National University and an M.P.A. in public administration from Harvard University.

Jung Tae Kim is the President and Chief Executive Officer. Prior to being elected to his current position in 2001, he was the Chairman, President and Chief Executive Officer of H&CB, an executive director for Daeshin Securities Co., Ltd. and the Chief Executive Officer for Dongwon Securities Co., Ltd. Mr. Kim received a B.A. in business administration and an M.B.A. from Seoul National University.

Choul Ju Lee is an Auditor and Executive Director. Prior to being elected to his current position in 2001, he was an Audit Committee Standing Member and Executive Director of H&CB and was a director and executive vice president for Hanil Bank. Mr. Lee received a B.A. in business administration from Seoul National University.

Non-Executive Directors

Our non-executive directors are selected based on the candidates' talents and skills in diverse areas, such as law, finance, economy, management and accounting. Currently, nine non-executive directors are in office. Of our nine non-executive directors, seven directors were nominated by stockholder representatives and the remaining two directors were nominated by our board of directors.

Our non-executive directors are as follows.

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Year Term Ends (1)</u>
Moon Soul Chung	64	Non-Executive Director	November 1, 2001	2003
Timothy Hartman	63	Non-Executive Director	March 22, 2002	2003
Sun Jin Kim	59	Non-Executive Director	November 1, 2001	2003
Sun Jae Cho	58	Non-Executive Director	March 22, 2002	2003
Dong Soo Chung	56	Non-Executive Director	March 22, 2002	2003
Keun Shik Oh	55	Non-Executive Director	March 22, 2002	2003
Kyung Hee Yoon	55	Non-Executive Director	November 1, 2001	2003
Ji Hong Kim	45	Non-Executive Director	November 1, 2001	2003
Henry Cornell	46	Non-Executive Director	November 1, 2001	2003

(1) The date on which each term will end will be the date of the general stockholders' meeting in the relevant year.

Moon Soul Chung has been a Non-Executive Director since 2001. He is currently counsel of Mirae Corporation and a non-executive director of Dongwon Securities. He received a B.A. in religion and philosophy from Won Kwang University.

Timothy Hartman has been a Non-Executive Director since 2002. He is a private investor who lives in Dallas, Texas, United States. He is also a director of Infonet Services Corp., a U.S.-based company. He was Chairman of Nationsbank of Texas, now Bank of America, until June 1997. Before joining Nationsbank, Mr. Hartman served as the Chief Financial Officer of Baldwin United Corporation. He holds an A.B. degree with a major in accounting from Xavier University.

Sun Jin Kim has been a Non-Executive Director since 2001. Mr. Kim currently serves as a president of Yuhan Corporation. He received a B.A. in business administration and an M.B.A. from Korea University.

Sun Jae Cho has been a Non-Executive Director since 2002. He is currently chairman of the board of directors of the Korean Teachers Credit Union. He has also served as the director of the local education support division of the Ministry of Education, the director of the International Education Development Center and Deputy Minister of the Ministry of Education. He received a B.A. in law and a Ph.D. in public administration from Kyung Hee University and a M.A. in education from University of Minnesota. He also received a Ph.D. in administration from Kyung Hee University.

Dong Soo Chung has been a Non-Executive Director since 2002. Mr. Chung served as the Vice Minister of the Ministry of Environment from January 2001 to February 2002. Mr. Chung holds a B.A. in business administration from Seoul National University and a M.A. in public administration from University of Wisconsin at Madison.

Keun Shik Oh has been a Non-Executive Director since 2002. He is currently a member of the Kwangjoo Social Investigation Research Center. He also served as a director of the Citizens' Pension Research Center, a standing member of the Public-Private Pension Improvement and Execution

Committee and the executive director of the National Pension Corporation. He received a B.A. in political science from Seoul National University and a Ph.D. in social welfare from Chung Ang University.

Kyung Hee Yoon has been a Non-Executive Director since 2001. He is currently the country manager and managing director for ING Barings Limited, Korea. He also served as the branch manager of ING Barings Securities, Ltd., Seoul branch, and a director of Barings Brother Ltd. He received a B.A. in Law from Seoul National University. Mr. Yoon was appointed and elected as our director pursuant to our investment agreement with affiliates of ING Groep. See “Item 7. Major Stockholders and Related Party Transactions.”

Ji Hong Kim has been a Non-Executive Director since 2001. He is currently a professor at Hanyang University and the executive director of Korea Financial Service Research Center. Mr. Kim holds a B.A. in economics from Seoul National University, an M.B.A. from Harvard Business School and a Ph.D. from University of California at Berkeley.

Henry Cornell has been a Non-Executive Director since 2001. He is currently a managing director at Goldman Sachs. Mr. Cornell holds a B.A. from Grinnell College and a J.D. from New York Law School. Mr. Cornell was appointed and elected as our director pursuant to our investment agreement with Goldman Sachs Capital Koryo. See “Item 7. Major Stockholders and Related Party Transactions.”

Any director wishing to enter into a transaction with Kookmin Bank in his or her personal capacity is required to obtain the prior approval of the Board of Directors. The director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

Committees of the Board of Directors

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

- the Board Steering Committee;
- the Management Strategy Committee;
- the Risk Management Committee;
- the Audit Committee; and
- the Compensation Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

Board Steering Committee

The committee consists of five non-executive directors, consisting of Moon Soul Chung, Sun Jin Kim, Dong Soo Chung, Ji Hong Kim and Henry Cornell, together with the chairman and the president and chief executive officer. The Board Steering Committee is responsible for ensuring the efficient operations of the board and the facilitation of the board’s functions. The committee is responsible for both recommending and reviewing candidates for director and recommending candidates for the committee. The committee also reviews and assesses the director compensation programs and retainer arrangements to attract qualified directors. The committee’s responsibilities also include reviewing and assessing the board’s structure and the effectiveness of that structure in fulfilling the board’s fiduciary responsibilities. The committee holds regular meetings every quarter.

Management Strategy Committee

The committee consists of five non-executive directors, consisting of Moon Soul Chung, Timothy Hartman, Dong Soo Chung, Keun Shik Oh and Ji Hong Kim. The Management Strategy Committee oversees our long term strategy formulation and reviews management's proposals of new strategic initiatives. The committee also reviews any other strategy and performance related matters that the committee deems necessary. The committee holds regular meetings every quarter.

Risk Management Committee

The committee consists of four non-executive directors, consisting of Timothy Hartman, Sun Jin Kim, Sun Jae Cho and Dong Soo Chung. The Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The committee consists of four non-executive directors, consisting of Sun Jin Kim, Sun Jae Cho, Keun Shik Oh and Kyung Hee Yoon, and one executive director, Choul Ju Lee. The Audit Committee oversees our financial reporting and approves the appointment of and interaction with our independent auditors, compliance officers, management personnel and other committee advisors. The committee also reviews our financial information, auditor's examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter.

Compensation Committee

The committee consists of three non-executive directors, consisting of Moon Soul Chung, Kyung Hee Yoon and Ji Hong Kim. The Compensation Committee's function is to oversee our overall compensation strategy and ensure that our executives are compensated in a manner consistent with the compensation strategy and requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving executive compensation criteria and levels as well as the benefit plans and overseeing the overall succession planning for executives. The committee holds regular meetings every six months.

Executive Officers

In addition to the executive directors who are also our executive officers, we currently have the following executive officers.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Jong Kyoo Yoon	46	Executive Vice President; Head of Corporate Financial Planning Division
Bong Hwan Cho	52	Executive Vice President; Head of Strategic Planning Division
Donald H. MacKenzie	54	Executive Vice President; Head of Risk Management Division
Sung Chul Kim	50	Executive Vice President; Head of General Administration Division
Jae In Seo	54	Executive Vice President; Head of Information Technology Division
Buhm Soo Choi	45	Executive Vice President; Head of Kookmin Economy and Business Research Institute, Head of Education and Training Center, Head of Subsidiaries Management Division
Bock Woan Kim	57	Executive Vice President; Head of Sales Business Unit
Young Il Kim	48	Executive Vice President; Head of Retail Banking Business Unit, Head of Private Banking Business Unit, Head of e-Business Unit
Ki Taek Hong	54	Executive Vice President; Head of Corporate Banking Business Unit
Sung Hyun Chung	54	Executive Vice President; Head of International Banking Business Unit
Ki Sup Shin	46	Executive Vice President; Head of Capital Market Business Unit
Sung Kyu Lee	42	Executive Vice President; Head of Workout Business Unit
Jong In Park	48	Executive Vice President; Head of Credit Card Business Unit
Byung Sang Kim	55	Executive Vice President; Head of Trust Business Unit
Woo Jung Lee	52	Executive Vice President; Head of National Housing Fund Management Business Unit

None of the executive officers have any significant activities outside Kookmin Bank.

Jong Kyoo Yoon is an Executive Vice President and the Head of the Corporate Financial Planning Division. Prior to joining us, he was a partner at Samil Accounting Corporation where he served as the deputy leader of the financial services group and the lead partner of the corporate finance and restructuring services group. Mr. Yoon holds a B.A. and a Ph.D. in business administration from Sung Kyun Kwan University and an M.B.A. from Seoul National University.

Bong Hwan Cho is an Executive Vice President and the Head of the Strategic Planning Division. Previously, he was appointed as an Executive Vice President of H&CB in 1999. Prior to becoming an executive officer, Mr. Cho served as a general manager in the planning department of H&CB. Mr. Cho received a B.A. in agriculture from Seoul National University and an M.A. in literature at Seoul National University. He also received an M.S. in business administration from Sogang University.

Donald H. MacKenzie is an Executive Vice President and the Head of the Risk Management Division. Prior to becoming an executive officer he had been advising us, as a specialist from ING Groep, with respect to our risk management operations pursuant to our investment agreement with certain affiliates of ING Groep. He also served as the general manager at ING Asia-Pacific. He received a B.A. in economics from the University of British Columbia. Mr. MacKenzie is also an employee of ING Groep.

Sung Chul Kim is an Executive Vice President and the Head of the General Administration Division. Previously, he was appointed as an Executive Vice President of H&CB in 2000. Prior to becoming an executive officer, Mr. Kim was the general manager of the corporate banking department of H&CB. He graduated from Mockpo Commercial High School.

Jae In Seo is an Executive Vice President and the Head of the Information Technology Division. Since joining Kookmin Bank in 1973, Mr. Seo has served as general manager of the Information Systems Division and the head manager of the northern district headquarters in Seoul. He became an Executive Vice President of Kookmin Bank in 2002. Mr. Seo received a B.S. in commercial science from Seoul National University.

Buhm Soo Choi is an Executive Vice President and the Head of the Kookmin Economy and Business Research Institute, the Education and Training Center and the Subsidiaries Management Division. Prior to joining Kookmin Bank in 2001, Mr. Choi served on the Kookmin-H&CB Merger Steering Committee and on various committees at the Financial Supervisory Commission and the Korea Stock Exchange. He became an Executive Vice President of Kookmin Bank in 2001. Mr. Choi received a B.A. in economics from Seoul National University and a Ph.D. in economics from Yale University.

Bock Woan Kim is an Executive Vice President and the Head of the Sales Business Unit. Prior to becoming an Executive Vice President in 1999, Mr. Kim served as a general manager of the Corporate Culture and Public Relations Department, the Business Department, and the Branch Management Department. Mr. Kim received a B.A. in law from Yonsei University.

Young Il Kim is an Executive Vice President and the Head of the Retail Banking Business Unit, the Private Banking Business Unit and the e-Business Unit. Prior to being elected to the current position in 2001, he was an Executive Vice President of H&CB and served as a general manager of both the Strategic Planning Team and the Risk Management Team of H&CB. Mr. Kim received a B.A. in science education from Seoul National University.

Ki Taek Hong is an Executive Vice President and the Head of the Corporate Banking Business Unit. Since joining Kookmin Bank in 1972, Mr. Hong has served as a general manager of the Risk Management Department, Capital Markets Department, and the Corporate Finance Department. He became an Executive Vice President of Kookmin Bank in 2002. Mr. Hong received a B.A. in law from Korea University.

Sung Hyun Chung is an Executive Vice President and the Head of the International Banking Business Unit. Since joining Kookmin Bank in 1999, Mr. Chung served as a general manager of the International Planning Department and the head manager of the headquarters in Pusan. He also worked at Korea Long Term Credit Bank from 1975 through 1995. He became an Executive Vice President of Kookmin Bank in 2002. Mr. Chung received a B.S. in industrial education from Seoul National University and an M.B.A. from the University of Pennsylvania.

Ki Sup Shin is an Executive Vice President and the Head of the Capital Market Business Unit. Prior to becoming Executive Vice President in 2002, Mr. Shin was the team leader in the Planning Division, Financial Research Team and ABS Team at H&CB. Mr. Shin received a B.S. in physics from Seoul National University.

Sung Kyu Lee is an Executive Vice President and the Head of the Workout Business Unit. Prior to joining Kookmin Bank in 2001, Mr. Lee served on various committees at the Financial Supervisory Commission and the CRV Development and Execution Commission and as the managing director of the loan department at Seoul Bank. He became an Executive Vice President of Kookmin Bank in 2002. Mr. Lee received a M.A. in economics from Seoul National University. He also received a Ph.D. in management from Yonsei University.

Jong In Park is an Executive Vice President and the Head of the Credit Card Business Unit. Previously, he was appointed as an Executive Vice President of H&CB in 2000. Prior to becoming an executive officer, he served as a general manager in the credit risk management department of Hyundai Capital. Mr. Park received a B.A. and an M.A. in business administration from Yonsei University.

Byung Sang Kim is an Executive Vice President and the Head of the Trust Business Unit. Since joining Kookmin Bank in 1973, Mr. Kim has served as a general manager of the Foreign Business Department, the Fund Management and Securities Department and the Personnel Department. He became an Executive Vice President of Kookmin Bank in 2000. Mr. Kim received a B.A. in geography from Seoul National University.

Woo Jung Lee is an Executive Vice President and the Head of the National Housing Fund Management Business Unit. Previously, he was appointed as an Executive Vice President of H&CB in 2000. Prior to becoming an executive officer, he served as a director general in the Government Properties Division of the Ministry of Finance and Economy. Mr. Lee received a B.A. in social science from Seoul National University and an M.S. in economics from Vanderbilt University.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

The aggregate remuneration paid and benefits-in-kind paid by us to our chairman, our president and chief executive officer, our other executive directors, our non-executive directors and our executive officers for the last two months of the year ended December 31, 2001 was ₩1,096 million. Including compensation paid by H&CB and the former Kookmin Bank for the first ten months of 2001, the amount was ₩9,091 million. In addition, for the last two months of the year ended December 31, 2001, we set aside ₩92 million for allowances for severance and retirement benefits for our chairman, our president and chief executive officer, the other executive directors and our executive officers. Including amounts set aside by H&CB and the former Kookmin Bank for the first ten months of 2001, the amount was ₩385 million.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

We have granted stock options to our chairman, our president and chief executive officer and other directors and executive officers as described below. For all of the options granted, we may elect either to issue common shares or pay in cash the difference between the exercise and the market price at the date of exercise. Restrictions on the grants, including continued employment for a specified period, lapse after two years of vesting. Upon vesting, options may be exercised between three to seven years from the grant date.

On November 16, 2001, our board of directors approved the Presidential Stock Option Plan, which provides for the grant of stock options to the president if certain measurement criteria have been met. In accordance with the Presidential Stock Option Plan, 200,000 options will be granted if our stock price is the highest among the stocks of banks listed on the Korea Stock Exchange, based on the average daily closing price announced for three months prior to the commencement of the exercise period (or in the case of premature retirement, prior to the date of retirement). These options vest over a three-year period beginning on November 16, 2001 and may be exercised up to eight years from the grant date. Exercised options can be settled through the payment of cash or the issuance of shares at our discretion. For additional information regarding our stock option plan, see Note 31 to our consolidated financial statements.

In 2001, we recognized ₩5,307 million as compensation expense for the stock options granted under our incentive stock option plan.

EMPLOYEES

The following table sets forth information, for the periods indicated, regarding our employees.

	As of December 31,				
	1999		2000		2001
	Kookmin Bank	H&CB	Kookmin Bank	H&CB	Kookmin Bank
Full-time employees	11,429	8,956	11,010	8,832	19,155
Contractual employees (1)	2,409	2,709	2,541	3,136	6,372
Managerial or executive employees	4,808	3,451	4,750	3,787	8,706
Members of Korea Financial Industry Union					
Kookmin Bank Chapter	9,648	—	9,259	—	8,885
H&CB Chapter	—	7,463	—	7,147	7,065
Subsidiary full-time employees (2)	1,393	165	1,396	201	1,907

(1) Terms ranging from one month to five years for Kookmin Bank and the former Kookmin Bank, and from one month to one year for H&CB.

(2) Including executive officers.

The increase in the number of contractual employees during the past two years, other than as a result of the merger, results from our cost-cutting initiative to replace positions with simple job responsibilities previously filled by full-time employees with contractual employees.

We consider our relations with our employees to be satisfactory. Every year, usually in May, our unions and our management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments. We currently have two union chapters following the merger and negotiations are with representatives of both union chapters.

In connection with the merger between the former Kookmin Bank and H&CB, we encountered a number of difficulties with the labor unions of both banks, most of which have since been resolved. More recently, in connection with our decision on January 9, 2002 to integrate the former Kookmin Bank operations and the H&CB operations onto a single IT platform, members of the former Kookmin Bank chapter of the labor union filed a motion with the Seoul District Court seeking a preliminary injunction to cease the IT integration scheduled for completion in September 2002. The court subsequently ruled in our favor and the right to appeal that decision has been waived.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to directors, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, depending on their annual performance. We plan to gradually expand the provision of performance-based incentive compensation to our employees starting from high-level employees to mid-level employees, subject to agreement from our unions. Recently, we have also implemented a profit-sharing system in order to enhance the performance of our employees. Under this system, we pay annual bonuses to our employees, in addition to the base salary, depending on our annual performance and the performance of the branches to which the employees belong.

We provide a wide range of benefits to our employees, including our executive directors. These benefits include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance, reimbursement for medical expenses and low interest housing loans.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the National Pension Corporation at the rate of 4.5% of each employee's annual wages.

Our employees are also responsible for payment to the National Pension Corporation of 4.5% of their wages. Our employees are entitled to receive an annuity from the National Pension Corporation in the event they lose, in whole or in part, their earning ability.

Upon termination, our employees are entitled to receive severance payments from us. The amount of any such severance payment is the severance payment amount stipulated in the Labor Standards Act of Korea. Under limited circumstances, employees are entitled to withdraw their accumulated unpaid severance amounts before their termination of employment. We made total interim severance payments of ₩40 billion in 2000. Subsequent to the merger, we designed another set of severance scheme rules to substitute those previously adopted by the former Kookmin Bank and H&CB. Employees were allowed to make a one-time withdrawal of an interim severance payment upon their acceptance of the new severance scheme. We paid ₩465 billion to the employees who accepted the new scheme and requested their interim severance payments in 2001.

All of our employees are eligible to participate in our employee stock ownership association plan. We are not required to, and do not, make contributions to this plan. Members of our employee stock ownership association plan have pre-emptive rights to acquire up to 20% of our shares in public offerings by us pursuant to the Korean Securities and Exchange Act.

We operate human resources development programs to train future leaders, leadership programs for development and improvement of management skills and job skills enhancement programs to improve business skills. These educational training programs are being implemented through our four internal training centers, professional training institutions within Korea and overseas, advanced overseas financial institutions and correspondence training institutions. We also offer training programs at the Korea Banking Institute in order to train our employees in both basic functional and professional skills. We also are training our employees by giving each of our 200 senior managers a one-year paid leave to go back to school and upgrade their skills.

SHARE OWNERSHIP

Common Stock

As of December 31, 2001, the persons who are currently our directors or executive officers, as a group, held an aggregate of 71,466 shares of common stock of Kookmin Bank, representing approximately 0.02% of the outstanding Kookmin Bank common stock as of such date. None of these persons individually held more than 1% of the outstanding common stock of Kookmin Bank as of such date.

Stock Options

The following table is the breakdown of stock options with respect to our common stock which we have granted to our directors and employees. It describes grant date, position, exercise period, price and the number of options as of May 4, 2002.

Grant Date	Position	Exercise Period		Exercise Price (in Won)	Number of Granted Options (1)	Number of Exercised Options	Number of Exercisable Options
		From	To				
31-Oct-98	President & CEO	01-Nov-01	31-Oct-04	₩5,000	400,000	10,000 (2)	390,000
27-Feb-99	Auditor & Executive Director	28-Feb-02	27-Feb-05	13,900	30,000	30,000 (3)	0
27-Feb-99	8 Executive Vice Presidents	28-Feb-02	27-Feb-05	13,900	180,108	0	180,108
27-Feb-99	Non-Executive Director	28-Feb-02	27-Feb-05	13,900	10,000	0	10,000
28-Feb-00	Director & Executive Vice President	01-Mar-03	28-Feb-06	27,600	30,000	0	30,000
28-Feb-00	2 Executive Vice Presidents	01-Mar-03	28-Feb-06	27,600	60,000	0	60,000
28-Feb-00	11 Non-Executive Directors	01-Mar-03	28-Feb-06	27,600	52,009	0	52,009
28-Feb-00	10 Employees	01-Mar-03	28-Feb-06	27,600	67,283	0	67,283
24-Mar-01	2 Executive Vice Presidents	25-Mar-04	24-Mar-07	25,100	60,000	0	60,000
24-Mar-01	3 Non-Executive Directors	25-Mar-04	24-Mar-07	25,100	6,552	0	6,552
24-Mar-01	3 Employees	25-Mar-04	24-Mar-07	25,100	23,275	0	23,275
18-Mar-00	Chairman	19-Mar-03	18-Mar-05	23,469	41,460	0	41,460
18-Mar-00	Auditor & Executive Director	19-Mar-03	18-Mar-05	23,469	14,807	0	14,807
18-Mar-00	7 Non-Executive Directors	19-Mar-03	18-Mar-05	23,469	20,727	0	20,727
18-Mar-00	3 Executive Vice Presidents	19-Mar-03	18-Mar-05	23,469	35,535	0	35,535
15-Mar-01	Chairman	16-Mar-04	15-Mar-09	28,027	29,614	0	29,614
15-Mar-01	Auditor & Executive Director	16-Mar-04	15-Mar-09	28,027	14,807	0	14,807
15-Mar-01	9 Non-Executive Directors	16-Mar-04	15-Mar-09	28,027	23,376	0	23,376
15-Mar-01	7 Executive Vice Presidents	16-Mar-04	15-Mar-09	28,027	82,915	0	82,915
15-Mar-01	47 Employees	16-Mar-04	15-Mar-09	28,027	47,381	0	47,381
16-Nov-01	President & CEO	17-Nov-04	16-Nov-09	X(4)	700,000	0	700,000
16-Nov-01	Chairman	17-Nov-04	16-Nov-09	X(4)	150,000	0	150,000
22-Mar-02	Auditor & Executive Director	23-Mar-05	22-Mar-10	Y(5)	30,000	0	30,000(6)
22-Mar-02	9 Non-Executive Directors	23-Mar-05	22-Mar-10	Y(5)	69,000	0	69,000(7)
22-Mar-02	10 Executive Vice Presidents	23-Mar-05	22-Mar-10	57,100	300,000	0	300,000
22-Mar-02	16 Employees	23-Mar-05	22-Mar-10	57,100	190,000	0	190,000
	Total				<u>2,668,849</u>	<u>40,000</u>	<u>2,628,849</u>

- (1) The number of options has been adjusted due to the merger and the early retirement of the grantees.
- (2) The President & CEO exercised 10,000 of the options on December 21, 2001.
- (3) The Auditor & Executive Director exercised 30,000 of the options on April 20, 2002.
- (4) Calculation formula: Exercise price = ₩51,200 x (1 + the increase rate of KOSPI Banking Industry Index x 0.4) / 100. The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period-207.25) / 207.25 x 100.
- (5) Calculation formula: Exercise price = ₩57,100 x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period-KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.
- (6) Original issuance was 60,000 options, but 30,000 of the options were cancelled as of May 4, 2002 due to the refusal of one individual to accept the appointment as an executive director.
- (7) Original issuance was 72,000 options, but 3,000 of the options were cancelled as of May 4, 2002 due to the resignation of a non-executive director.

In addition, members of the employee stock ownership association have certain pre-emptive rights in relation to our shares that are publicly offered under the Korean Securities and Exchange Act, as described in "Item 10. Additional Information—Articles of Incorporation—Description of Capital Stock—Preemptive Rights and Issuances of Additional Shares."

Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

MAJOR STOCKHOLDERS

The following table presents information regarding the beneficial ownership of our shares at December 31, 2001 (not adjusted for the stock dividend paid in 2002) by each person or entity known to us to own beneficially more than 5% of our outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

<u>Beneficial Owner</u>	<u>Number of shares of common stock</u>	<u>Percentage of total shares of common stock (%)</u>	<u>Percentage of total shares on a fully diluted basis (%)</u>
The Government of Korea	28,890,341	9.64	9.27
The Bank of New York (1)	22,733,276	7.59	7.30
The Goldman Sachs Group, Inc.	20,449,650 (2)	6.82 (2)	9.77 (3)

(1) As depositary bank.

(2) Includes 19,553,663 shares held by Goldman Sachs Capital Chosun, Ltd. Goldman Sachs Capital Chosun, Ltd. sold 13,200,000 shares on June 21, 2002. Does not include 10,581,269 shares of common stock that could have been obtained by Goldman Sachs Capital Shilla, Ltd. upon conversion of US\$200 million in convertible bonds. Goldman Sachs Capital Chosun and Goldman Sachs Capital Shilla are Labuan companies limited by shares and are wholly-owned subsidiaries of Goldman Sachs Capital Koryo, L.P. Goldman Sachs Capital Koryo is an investment partnership, of which an affiliate of The Goldman Sachs Group, Inc. is the general partner and Investment manager. The Goldman Sachs Group disclaims beneficial ownership of the shares beneficially owned by Goldman Sachs Capital Koryo to the extent attributable to partnership interests therein held by persons other than The Goldman Sachs Group and its affiliates. Goldman Sachs Capital Koryo, Goldman Sachs Capital Chosun and Goldman Sachs Capital Shilla share voting and investment power with certain of their affiliates. Does not include shares that may be held from time to time by affiliates of The Goldman Sachs Group through trading activities or in managed client accounts.

(3) Includes 10,581,269 shares of common stock that could have been obtained by Goldman Sachs Capital Shilla, Ltd. upon conversion of US\$200 million in convertible bonds that it holds (but does not take into consideration the reduction of Goldman Sachs Capital Chosun, Ltd.'s interest on June 21, 2002).

As of December 31, 2001, executive and non-executive directors collectively owned 27,521 shares of our common stock, and our executive officers, excluding our chairman and our president and chief executive officer, owned 43,945 shares of our common stock.

Under the terms of an investment agreement with us, certain affiliated companies of ING Groep have the right to require us to use our reasonable efforts to cause two nominees of ING Insurance International to be appointed as our directors. In addition, these companies have to the right to cause us to sell shares to them in order to increase their shareholding in us to 9.99999%.

Under the terms of our investment agreement with Goldman Sachs Capital Koryo, Goldman Sachs Capital Koryo has the right to require us to use our best efforts to cause one nominee of Goldman Sachs Capital Koryo to be appointed as a non-executive director.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of December 31, 2001.

RELATED PARTY TRANSACTIONS

We regularly engage in transactions with entities affiliated with the government, which owns 9.64% of our shares. Generally, these transactions include the extension of loans, the purchase of debt securities and other ordinary course activities relating to our banking business. For a description of such transactions, see “Item 4. Information on the Company—Business—Other Business—Management of the National Housing Fund,” and “Item 4. Information on the Company—Assets and Liabilities—Loan Portfolio.”

As of December 31, 1999, 2000 and 2001, respectively, we had an aggregate of ₩295 million, ₩476 million and ₩992 million, respectively, in loans outstanding to our executive officers and directors. In addition, as of December 31, 1999, 2000 and 2001, respectively, we had an aggregate of ₩10 billion, ₩0.8 billion and ₩19 billion, respectively, in loans and ₩33 billion, ₩7 billion and ₩16 billion, respectively, in guarantees outstanding to a company and its affiliates for which one of our non-executive directors is the chief executive officer. All these loans and guarantees were made in the ordinary course of business.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

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 ₩360 billion of new common shares (17,768,870 common shares at ₩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 a conversion price of ₩14,200 per common share. As a result of the merger and other adjustment events, the current conversion price is ₩22,124. At the time of the purchase, the shares purchased by Goldman Sachs Capital Koryo represented an approximate 11.79% interest in the former Kookmin Bank's common shares, not including the convertible bonds purchased by Goldman Sachs Capital Koryo. Assuming conversion of the convertible bonds, Goldman Sachs Capital Koryo's investment represented 16.94% of the former Kookmin Bank's common shares at that time. As of December 31, 2001, Goldman Sachs Capital Koryo's investment represented a 6.52% interest in us and a 9.54% interest assuming conversion of the convertible bonds. Under the terms of the investment agreement, for so long as Goldman Sachs Capital Koryo, directly or indirectly, owns 3% or more of our outstanding common stock (assuming for purposes of this calculation that all of our convertible bonds beneficially owned by Goldman Sachs Capital Koryo have been converted into our common shares):

- we are required to use our best efforts to cause one nominee of Goldman Sachs Capital Koryo to be appointed as a non-executive director to our board of directors, and our board of directors is required to use its best efforts to nominate and recommend an additional nominee of Goldman Sachs Capital Koryo for election as a non-executive director when such position becomes available; and
- for so long as Goldman Sachs Capital Koryo's investment meets a minimum threshold, we are required to consult with it and obtain its prior approval before we or any of our subsidiaries enter into any agreement or understanding with respect to (A) a merger, share exchange or consolidation involving any financial institution or (B) the acquisition of a substantial portion of the assets of any financial institution.

Under the terms of an investment agreement with ING Insurance International B.V. and ING Verzekeringen N.V., which are affiliates of ING Groep N.V., we, as the successor entity to H&CB, are required to use our reasonable efforts to cause two nominees of ING Insurance International to be appointed as our directors so long as ING Groep and its affiliates maintain a minimum shareholding in us as defined in the investment agreement. In addition, in order to avoid triggering a break-up event under the investment agreement, we are effectively required to obtain the consent of ING Insurance International and ING Verzekeringen, as guarantor under the investment agreement, to enter into any agreement or understanding with respect to a merger or consolidation by us that results in us not being the surviving entity. The merger between the former Kookmin Bank and H&CB constituted a break-up event for purposes of the investment agreement. In addition, in order to maintain the effectiveness of these provisions, pursuant to the investment agreement, ING Groep was required to increase its interest in us to 8.00% by November 1, 2001 and to make additional investments to increase its interest in us to 9.99999% by February 1, 2002. In connection with the merger, H&CB and the other parties to the investment agreement signed a waiver agreement agreeing to suspend these deadlines and ING Groep's right to sell its shares pursuant to the merger break-up event until March 31, 2002 in order to formulate a new structure with respect to the strategic alliance, which includes possible additional investment by ING Groep in us. On March 30, 2002, the parties issued a press release stating their intention to maintain the strategic alliance and agreeing to continue discussions for the formulation of a mutually beneficial strategic alliance structure by the end of May 2002. On June 1, 2002, we issued another press release stating our intention to continue negotiations regarding the strategic alliance, but without setting a deadline for the completion of negotiations. As a result of these events, ING Groep currently is not subject to lock-up restrictions on the shares it owns pursuant to the investment agreement. See "Item 4. Information on the Company—History and Development of the Company—History—History of H&CB."

Item 8. FINANCIAL INFORMATION

CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

See “Item 18—Financial Statements” and pages F-1 through U-61.

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME DATA

The following unaudited pro forma combined statement of income data are derived from our audited consolidated statement of income for the year ended December 31, 2001 and the audited consolidated statement of income of H&CB for the ten-month period ended October 31, 2001, both appearing elsewhere in this document. The unaudited pro forma combined statement of income data have been prepared as if the merger had occurred on January 1, 2001.

The unaudited pro forma combined statement of income data give effect to the merger between the former Kookmin Bank and H&CB using the purchase method of accounting for business combinations, with the former Kookmin Bank being the acquiring entity and H&CB being the acquired entity. The merger transaction is more fully described in “Item 4. Information on the Company—History and Development of the Company.”

You should read the unaudited pro forma combined statement of income data in conjunction with the historical audited consolidated financial statements and the related notes of Kookmin Bank and H&CB included elsewhere in this document.

The unaudited pro forma combined statement of income data appearing below are based on the statements of income prepared in accordance with U.S. GAAP. U.S. GAAP requires the use of estimates that affect the reported amounts of revenues and expenses. Actual results could differ from those estimates. The unaudited pro forma combined statement of income data have been prepared based on the assumptions described in the notes thereto.

The unaudited pro forma combined statement of income data have been prepared for comparative purposes only and do not purport to be indicative of what the operating results would have been, had the merger actually taken place for the periods presented.

UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME
for the year ended December 31, 2001

	Historical		Pro forma		
	Year ended December 31, 2001	Ten-month period ended October 31, 2001	Inter- company Eliminations (1)	Purchase Accounting Adjustments (2)	Combined
	Kookmin Bank	H&CB			
(in millions of Won, except per share data)					
Interest and dividend income					
Loans, including fees	₩7,089,317	₩4,203,973	₩ (7,269)	₩(63,951)(A)	₩11,222,070
Trading assets	173,135	14,973	—		188,108
Investment securities	1,545,407	433,226	(3,321)	(23,590)(A)	1,951,722
Call loans and securities purchased under resale agreements	100,611	49,187	(623)		149,175
Deposits in other banks	65,526	26,718	(237)		92,007
Other interest income	—	19,267	(1,520)		17,747
Total interest and dividend income	<u>8,973,996</u>	<u>4,747,344</u>	<u>(12,970)</u>	<u>(87,541)</u>	<u>13,620,829</u>
Interest expense					
Deposits	3,537,666	2,463,057	(237)	(213,693)(A)	5,786,793
Call money	40,963	18,143	(623)		58,483
Other borrowed funds	557,813	121,721	(4,841)		674,693
Long-term debt	926,499	256,436	(7,269)	(57,964)(A)	1,117,702
Secured borrowings	297,114	77,178	—		374,292
Total interest expense	<u>5,360,055</u>	<u>2,936,535</u>	<u>(12,970)</u>	<u>(271,657)</u>	<u>8,011,963</u>
Net interest income	<u>3,613,941</u>	<u>1,810,809</u>	<u>—</u>	<u>184,116</u>	<u>5,608,866</u>
Provision for loan losses	1,264,000	696,762	—		1,960,762
Provision for guarantees and acceptances	(9,153)	(5,664)	—		(14,817)
Net interest income after provision for loan losses, guarantees and acceptances	<u>2,359,094</u>	<u>1,119,711</u>	<u>—</u>	<u>184,116</u>	<u>3,662,921</u>
Noninterest income					
Trust fees, net	217,353	322,976	—		540,329
Other fees and commission income	1,204,826	302,506	(292)		1,507,040
Net trading revenue	124,487	218,112	—		342,599
Net gain (loss) on investments	32,504	(206,358)	—		(173,854)
Other noninterest income	123,169	116,063	—		239,232
Total noninterest income	<u>1,702,339</u>	<u>753,299</u>	<u>(292)</u>	<u>—</u>	<u>2,455,346</u>
Noninterest expense					
Salaries and employee benefits	1,058,069	502,186	—		1,560,255
Depreciation and amortization	178,965	129,672	—	77,405 (B)	386,042
Other administrative expenses	411,358	200,227	—		611,585
Credit card fees	239,719	51,796	—		291,515
Other fees and commissions	336,646	215,158	(292)		551,512
Other noninterest expense	181,099	195,517	—		376,616
Total noninterest expense	<u>2,405,856</u>	<u>1,294,556</u>	<u>(292)</u>	<u>77,405</u>	<u>3,777,525</u>
Net income before income taxes, minority interest, extraordinary gain and cumulative effect of accounting change	<u>1,655,577</u>	<u>578,454</u>	<u>—</u>	<u>106,711</u>	<u>2,340,742</u>
Income taxes	624,679	187,309	—	31,693	843,681
Minority interest	84,224	5,256	—		89,480
Net income before extraordinary gain and cumulative effect of accounting change	<u>₩ 946,674</u>	<u>₩ 385,889</u>	<u>—</u>	<u>₩ 75,018</u>	<u>₩ 1,407,581</u>
Net income before extraordinary gain and cumulative effect of accounting change available to common stockholders:					
Basic	₩ 946,674	₩ 385,889	—	₩ 75,018	₩ 1,407,581
Interest on convertible debentures	6,263	—	—	—	6,263
Diluted	<u>₩ 952,937</u>	<u>₩ 385,889</u>	<u>—</u>	<u>₩ 75,018</u>	<u>₩ 1,413,844</u>
Net income per share before extraordinary gain and cumulative effect of accounting change					
Basic net income per share before extraordinary gain and cumulative effect of accounting change (in Won)	₩ 4,486	₩ 3,217			₩ 4,440
Weighted average shares outstanding (in thousands)	211,037	119,968			317,009 (3)
Diluted net income per share before extraordinary gain and cumulative effect of accounting change (in Won)	₩ 4,063	₩ 2,800			₩ 3,979
Diluted weighted average shares outstanding (in thousands)	234,541	137,796			355,369 (3)

NOTES TO THE UNAUDITED PRO FORMA COMBINED STATEMENT OF INCOME

- (1) Intercompany eliminations consist principally of interest income or expense relating to various lending and financing transactions entered into during the normal course of business.
- (2) Reflects the impact of the following adjustments for the ten-month period ended October 31, 2001. The impact of adjustments related to conforming the accounting policies of the former Kookmin Bank and H&CB is not material.
 - (A) Amortization/accretion of the premium/discount arising from the difference between the fair values and the carrying amounts of H&CB's loans, held-to-maturity securities, deposits and debenture balances acquired as a result of the merger, calculated based on the weighted average maturity of each individual financial instrument.
 - (B)
 - (i) Amortization of ₩59 billion and ₩37 billion related to the core deposit and credit card relationship intangible assets acquired in the merger with H&CB based on their estimated useful lives in proportion to the estimated run-off of the related depositor and customer relationships, respectively. The fair value of the core deposit intangible asset after the pro rata allocation of negative goodwill totalled ₩404 billion and its estimated weighted average life is approximately eight years. The fair value of the credit card relationship intangible asset after the pro rata allocation of negative goodwill totalled ₩134 billion and its estimated weighted average life is approximately six years.
 - (ii) A net decrease in depreciation expense of ₩19 billion relating to (a) an increase in depreciation expense due to the increase in fair value of H&CB's fixed assets as a result of the purchase price allocation, net of (b) a decrease in depreciation expense as a result of the allocation of negative goodwill to H&CB's fixed assets on a pro rata basis.
- (3) Equals Kookmin Bank basic and diluted weighted average shares outstanding for the year ended December 31, 2001 plus H&CB's basic and diluted weighted average shares outstanding during the ten-month period ended October 31, 2001, adjusted, as appropriate, to reflect the 6% stock dividend we declared in March 2002. The merger exchange ratio for H&CB common stock was 1:1, and the merger exchange ratio for the former Kookmin Bank common stock was 1.688346:1.

Merger with H&CB

Effective November 1, 2001, the former Kookmin Bank merged with H&CB. The merger was effected through the creation of our bank into which the former Kookmin Bank and H&CB merged through an exchange of shares, with stockholders of the former Kookmin Bank and H&CB each receiving our shares in exchange for their respective shares in each merging entity based on a pre-determined ratio. After the merger, the stockholders of the former Kookmin Bank owned 60% and the stockholders of H&CB owned 40% of our common stock, assuming conversion of both banks' convertible bonds into common stock prior to the completion of the merger.

The merger was accounted for under the purchase method of accounting for business combinations, with the former Kookmin Bank being the acquiring entity for accounting purposes. Our consolidated financial statements for the year ended December 31, 2001 include the operations of H&CB from November 1, 2001.

The assets and liabilities of H&CB were recorded at fair value, with the excess of the fair value of the net assets acquired over the purchase consideration representing negative goodwill. In accordance with SFAS No. 141, negative goodwill was allocated to the identifiable intangible assets and fixed assets on a pro rata basis.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in millions of Won):

Cash and cash equivalents	₩1,122,743
Deposits	880,238
Call loans	1,075,729
Trading assets	4,322,933
Securities	7,799,062
Loans, net of allowance for loan losses	49,442,529
Premises and equipment, net	1,085,854
Other assets	1,725,532
Intangible assets:	
Core deposit intangible asset ^(a)	670,483
Credit card relationship intangible asset ^(b)	222,254
Total assets	68,347,357
Due to depositors	51,861,465
Borrowings and debentures	9,379,486
Other liabilities	3,605,219
Minority interest at book value	11,681
Total liabilities	64,857,851
Fair value of net assets of H&CB	₩3,489,506

- (a) Core deposit intangible reflects the estimated fair value of the demand deposits and savings accounts acquired from H&CB from which we can expect to maintain for an extended period of time because of generally stable customer relationships. See “Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies—Intangible Assets Acquired.”
- (b) Credit card relationship intangible reflects the estimated fair value of the credit card relationships acquired from H&CB from which we can expect to derive future benefits over the estimated life of such relationships. See “Item 5. Operating and Financial Review and Prospects—Critical Accounting Policies—Intangible Assets Acquired.”

The determination of the total purchase price and the allocation of the purchase consideration are as follows (in millions of Won):

Market value of consideration	₩2,897,349 ^(a)
Acquisition costs	48,011
Total purchase price	₩2,945,360
Allocation of Purchase Price:	
Fair value of H&CB net assets	₩3,489,506
Negative goodwill	(544,146)
Total purchase price	₩2,945,360
Allocation of Negative Goodwill:	
Reduction in premises and equipment, net	₩ (431,224)
Reduction in core deposit intangible asset	(266,710)
Reduction in credit card relationship intangible asset	(88,410)
Increase in deferred tax asset	242,198
	₩ (544,146)

- (a) Market value of consideration has been calculated by reference to the number of our shares to be issued to H&CB’s stockholders (based on an exchange ratio of 1:1). The number of H&CB

shares outstanding at October 31, 2001 was multiplied by the average closing stock price of the former Kookmin Bank on the Korea Stock Exchange two days before and after the merger agreement date of April 23, 2001, times the exchange ratio of the former Kookmin Bank stock as follows:

H&CB common shares outstanding at October 31, 2001	119,922,229
Average former Kookmin Bank stock price (in Won)	14,310
Former Kookmin Bank share exchange ratio	1.688346
Total market value of consideration (in millions of Won)	<u>2,897,349</u>

LEGAL PROCEEDINGS

Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

DongNam Bank and DaeDong Bank

Following H&CB's acquisition of DongNam Bank, 1,104 former employees of DongNam Bank brought a suit against H&CB seeking to require H&CB to provide employment and to pay money damages. The claim is based on the argument that the acquisition of DongNam Bank was a business transfer in nature, triggering the requirement that all employees of DongNam Bank be given the option to work with us after the acquisition. On May 25, 2000, the Seoul District Court Southern Branch decided the case in H&CB's favor. The former employees of DongNam Bank appealed to the Seoul High Court on June 12, 2000. On February 2, 2001, the Seoul High Court declined to hear the appeal. However, the former employees of DongNam Bank appealed the decision of the Seoul High Court directly to the Supreme Court on March 13, 2001. If the case is ultimately decided against us, we, as the successor entity to H&CB, could be forced to employ these former employees of DongNam Bank and pay monetary damages. Although we believe this case is without merit, the amount of monetary damages we could be required to pay could be as much as ₩73 billion.

In September 1998, members of DongNam Bank's labor union brought an administrative action against the Financial Supervisory Commission demanding the unwinding of H&CB's acquisition of DongNam Bank on the grounds that the law upon which the Financial Supervisory Commission based its order for the acquisition was unconstitutional. On July 18, 2001, the Seoul Administrative Court decided the case in favor of the Financial Supervisory Commission. Members of DongNam Bank's labor union appealed the case to the Seoul High Court on August 10, 2001. The case is still pending.

Following the former Kookmin Bank's acquisition of DaeDong Bank, certain former employees of DaeDong Bank brought a suit against the former Kookmin Bank requesting Kookmin Bank to provide employment and money damages. The claim is based on the argument that the acquisition of DaeDong Bank is a business transfer in nature that triggers the requirement to be satisfied that all employees of DaeDong Bank be given the option to work with us after the acquisition. On November 30, 2001, the Seoul District Court decided the case in Kookmin Bank's favor. One of the plaintiffs appealed to the Seoul High Court on February 21, 2002. The case is still pending.

Under Korean law then in force, a transfer of a business to a company required the approval of the acquiring company's stockholders, as well as an opportunity for dissenting stockholders to exercise appraisal rights, which meant that the acquiring company was required to purchase shares

from those stockholders at a predetermined price. It is unclear whether H&CB's acquisition of DongNam Bank and the former Kookmin Bank's acquisition of DaeDong Bank constituted a transfer of a business for purposes of Korean law. The Ministry of Justice of Korea has issued an interpretation to the effect that these acquisitions did not constitute a business transfer requiring stockholder approval and appraisal rights. This interpretation, however, does not have any legally binding effect. On April 12, 2002, the Supreme Court issued a ruling in a similar case that is consistent with the Ministry of Justice interpretation. The former Kookmin Bank and H&CB did not obtain stockholder approval for the acquisitions or provide appraisal rights to dissenting stockholders.

The Merger

In December 2000, the members of the former Kookmin Bank labor union, together with members of the H&CB labor union, went on strike for one week in opposition to the proposed merger between the former Kookmin Bank and H&CB. On August 2, 2001, the former Kookmin Bank's labor union adopted a resolution to commence acts of labor dispute and the members of the labor union voted to oppose the appointment of Mr. Jung Tae Kim, the then-chief executive officer of H&CB, as our chief executive officer. On August 17, 2001, the former Kookmin Bank's labor union filed a motion with the Seoul District Court seeking a preliminary injunction to prevent Mr. Jung Tae Kim from acting as our appointed chief executive officer. The former Kookmin Bank's labor union alleged that the process for selecting the nominee for our chief executive officer was in violation of the Bank Act. The court subsequently ruled in our favor and dismissed the labor union's motion on October 5, 2001. In addition, on September 6, 2001, the former Kookmin Bank's labor union announced that it had filed a lawsuit to nullify the merger agreement, although this lawsuit was subsequently withdrawn in January 28, 2002.

Also, in March 2001, an individual filed a lawsuit with the Seoul District Court requesting the court to order a revocation of the merger, and the case is still pending. In connection with this case the same individual filed a motion with the same court seeking a preliminary injunction, pending judgment on the merits, to suspend performance of duties of certain officers of the Merger Steering Committee, former Kookmin Bank and H&CB, which motion was declined by the Seoul District Court on March 28, 2001. The individual appealed the motion to the Seoul High Court, which declined the motion. The individual reappealed to the Supreme Court, which is currently considering the case.

On October 8, 2001, a minority stockholder, as the representative plaintiff among 50 minority stockholders, filed a lawsuit with the Seoul District Court requesting that the court revoke the resolution approving the merger made at the extraordinary general meeting of the stockholders held on September 29, 2001. It alleged that there was illegal interference with certain minority stockholders' right to vote. The plaintiff subsequently amended its claim and requested nullification of the merger. The Seoul District Court is currently considering the case.

Other Proceedings

Kookmin Bank

On March 28, 2001, the Korea Fair Trade Commission ordered 15 financial institutions including H&CB to pay administrative fines in an aggregate amount of ₩4.02 billion for using their superior market position to unfairly modify or contain the fees for cash advance service, installment purchase and late payment and transaction terms. H&CB was fined ₩335.9 million, which was subsequently lowered to ₩316.9 million upon appeal by H&CB on August 24, 2001. H&CB paid the administrative fine in full.

On January 9, 2002, the Korea Fair Trade Commission ordered seven banks, including us, to refrain from refusing to continue their business relationship with a particular business partner, Hana Bank. The banks filed a lawsuit with the Seoul High Court to revoke the order. Pending the suit, the court ruled for a suspension of the order on February 1, 2002. The lawsuit filed by the banks is currently pending at the court.

Kookmin Credit Card

On March 28, 2001, Kookmin Credit Card was fined ₩500 million by the Korea Trade Commission for anti-competition violations. Kookmin Credit Card was alleged to have tried to stifle competition by having asked for an unreasonable introductory fee for Shinhan Bank to use our merchants for its credit cards. Kookmin Credit Card has initially paid the administrative fine in full and has filed a lawsuit with the Seoul High Court to revoke the order. The lawsuit filed by Kookmin Credit Card is currently pending.

On April 6, 2001, Kookmin Credit Card was fined ₩235 million by the Korea Fair Trade Commission for allegedly using its superior market position to prevent other banks in our affinity program from altering fees paid by merchants and from reducing the payment cycle from merchants. Kookmin Credit Card plans to pay the administrative fine in full and then file a lawsuit with the Seoul High Court to revoke the order.

In April 2002, the Korea Fair Trade Commission ordered four domestic-based credit card companies to pay administrative fines in an aggregate amount of ₩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 ₩6.96 billion for anti-competitive behavior. Kookmin Credit Card plans to pay the administrative fine in full and then file a lawsuit with the Seoul High Court to revoke the order.

DIVIDENDS

Dividends must be approved by the stockholders at the annual general meeting of stockholders. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See “Item 10. Additional Information—Articles of Incorporation—Description of Capital Stock—Dividends and Other Distributions.”

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends paid by the former Kookmin Bank for the four years ended December 31, 2000, and paid by us for the year ended December 31, 2001. The dividends set out for each of the years below were paid within 30 days after our annual stockholders meeting, which is held no later than March of each year. Dollar amounts have been converted from Won at the noon buying rate at the end of the relevant periods.

<u>Fiscal year</u>	<u>Dividends per common share (1)(2)</u>		<u>Dividends per preferred share (2)</u>		<u>Total amount of cash dividends paid</u>
					<u>(in millions of Won)</u>
1997 (3)	₩1,023	\$0.60	—	—	₩50,575
1998 (4)	—	—	—	—	—
1999	338	0.30	₩50	\$0.04	47,273
2000	84	0.07	50	0.04	16,938
2001 (5)	844	0.64	50	0.04	151,009

- (1) Per share information for dividends paid prior to November 1, 2001 has been adjusted for the merger ratio of 1:1.688346.
- (2) Won amounts are expressed in U.S. dollars at the rate of ₩1,313.5 = US\$1.00, the noon buying rate in effect on December 31, 2001 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) There was also a dividend in common stock of 0.8% of par value.
- (4) No cash dividend was made, but a dividend in common stock of 19.0% of par value was made.
- (5) On December 15, 2001, our board of directors passed a board resolution recommending a 6% stock dividend and a cash dividend of ₩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 the stockholders who were registered in the stockholder registry on December 31, 2001.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs. See “Item 12. Description of Securities Other Than Equity Securities” for a description of the payment and distribution of dividends.

For a description of the tax consequences of dividends paid to our stockholders, see “Item 10. Additional Information—United States Taxation” and “Item 10. Additional Information—Korean Taxation—Taxation of Dividends.”

Item 9. THE OFFER AND LISTING

MARKET PRICE INFORMATION

The principal trading market for our common stock is the Korea Stock Exchange. Our common stock has been listed on the Korea Stock Exchange since November 9, 2001, and the ADSs have been listed on the New York Stock Exchange under the symbol "KB" since November 1, 2001. The ADSs are identified by the CUSIP number 50049M109.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Stock Exchange for our common stock and, for periods prior to the merger, for the common stock of the former Kookmin Bank (not adjusted for the merger ratio), and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Korea Stock Exchange (1)			New York Stock Exchange (2)		
	Closing price per common stock (3)		Average daily trading volume (in thousands of shares)	Closing price per ADS		Average daily trading volume (in thousands of shares)
	High	Low		High	Low	
1998	₩10,537	₩2,853	2,371.9	—	—	—
1999	24,915	7,406	4,364.8	—	—	—
2000	21,100	9,200	3,340.3	—	—	—
2001						
First Quarter	18,900	13,200	2,700.9	—	—	—
Second Quarter	17,750	12,250	1,975.9	—	—	—
Third Quarter	20,600	15,600	1,891.4	—	—	—
Fourth Quarter (to October 31)	20,000	16,600	1,754.7	—	—	—
Fourth Quarter (from November 1 for ADSs and from November 9 for common stock)	49,800	38,962	2,549.4	\$38.90	\$24.67	133.2
2002						
First Quarter	62,100	51,500	1,897.3	47.95	39.45	164.2
Second Quarter	65,800	54,300	1,740.8	49.95	41.35	280.8
January	62,100	51,500	2,043.2	47.95	39.45	178.3
February	60,900	55,000	1,672.7	45.65	41.38	148.2
March	59,000	53,100	1,927.8	44.87	40.83	164.5
April	63,500	54,300	2,026.7	49.30	41.35	324.2
May	66,400	58,900	1,391.0	53.96	46.50	222.0
June (through June 24)	63,800	58,600	1,555.1	51.99	47.70	449.9

Source: IDC Remote Plus, Reuters and Korea Stock Exchange

- (1) Trading of common shares on the Korea Stock Exchange commenced on November 9, 2001.
- (2) Trading of ADSs on the New York Stock Exchange commenced on November 1, 2001. Each ADS represents the right to receive one share.
- (3) For periods prior to November 9, 2001, the quotations for the common shares are in respect of the former Kookmin Bank, which have not been adjusted for the merger ratio.

THE KOREAN SECURITIES MARKET

The Korea Stock Exchange

The Korea Stock Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Korea Stock Exchange is a membership organization consisting of most of the Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2001, the aggregate market value of equity securities listed on the Korea Stock Exchange was approximately ₩256 trillion. The average daily trading volume of equity securities for 2001 was approximately 473 million shares with an average transaction value of ₩1,997 billion.

The Korea Stock Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the Korea Stock Exchange. The Korea Stock Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The government has in the past exerted, and continues to exert, substantial influence over many aspects of the private sector business community which can have the intention or effect of depressing or boosting the market. In the past, the government has informally both encouraged and restricted the declaration and payment of dividends, induced mergers to reduce what it considers excess capacity in a particular industry and induced private companies to offer publicly their securities.

The Korea Stock Exchange publishes the Korea Composite Stock Price Index ("KOSPI") every thirty seconds, which is an index of all equity securities listed on the Korea Stock Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

Movements in KOSPI are set out in the following table together with the associated dividend yields and price earnings ratios.

	<u>Closing</u>	<u>Percentage Change</u>	<u>Average</u>	<u>High</u>	<u>Low</u>
1981	131.37	22.9	128.30	165.96 (July 7)	93.14 (Jan. 7)
1982	127.31	(3.1)	122.03	134.49 (Mar. 6)	106.00 (May 14)
1983	121.21	(4.8)	127.70	134.46 (May 9)	115.59 (Oct. 10)
1984	142.46	17.5	131.88	142.46 (Dec. 24)	114.37 (Jan. 7)
1985	163.37	14.7	138.93	163.37 (Dec. 26)	131.40 (May 20)
1986	272.61	86.9	227.78	279.67 (Dec. 2)	153.65 (Jan. 24)
1987	525.11	92.6	417.55	525.11 (Dec. 26)	264.82 (Jan. 5)
1988	907.20	72.8	693.14	922.56 (Dec. 14)	527.89 (Jan. 5)
1989	909.72	0.3	918.60	1,007.77 (Apr. 1)	844.75 (Dec. 11)
1990	696.11	(23.5)	747.00	928.82 (Jan. 4)	566.27 (Sep. 17)
1991	610.92	(12.2)	657.13	763.10 (Aug. 6)	586.51 (Dec. 23)
1992	678.44	11.1	587.15	691.48 (Feb. 8)	459.07 (Aug. 21)
1993	868.18	27.7	728.15	874.10 (Dec. 17)	605.93 (Mar. 6)
1994	1,027.37	18.6	865.70	1,138.75 (Nov. 8)	855.37 (Apr. 2)
1995	882.94	(14.1)	934.92	1,016.77 (Oct. 14)	847.09 (May 27)
1996	651.22	(26.2)	833.40	966.84 (May. 7)	651.22 (Dec. 27)
1997	376.31	(42.2)	654.48	792.29 (June 17)	350.88 (Dec. 12)
1998	582.46	49.5	406.07	579.86 (Dec. 15)	280.00 (June 16)
1999	1,028.07	82.8	808.83	1,028.07 (Dec. 28)	496.42 (Feb. 24)
2000	504.62	(50.9)	734.22	1,059.04 (Jan. 4)	500.60 (Dec. 22)
2001	693.70	37.5	572.83	704.50 (Dec. 7)	466.76 (Sep. 17)
2002 (through June 17, 2002)	809.16	16.6	822.68	937.61 (Apr.18)	708.47 (Jan. 18)

Source: The Korea Stock Exchange

Shares are quoted “ex-dividend” on the first trading day of the relevant company’s accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted “ex-dividend” and “ex-rights,” permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Korea Stock Exchange to 15% of the previous day’s closing price of the shares, rounded down as set out below:

<u>Previous Day’s Closing Price (Won)</u>	<u>Rounded Down To (Won)</u>
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500
500,000 or more	1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

Due to a recent deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Korea Stock Exchange by the securities companies. In addition, a securities transaction tax will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Korea Stock Exchange. See “Item 10. Additional Information—Korean Taxation.”

The number of companies listed on the Korea Stock Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(Billions of Won)	(Millions of US\$) (1)	Thousands of Shares	(Millions of Won)	(Thousands of US\$) (1)
1981	343	₩ 2,959	\$ 4,223	10,565	₩ 8,708	\$ 12,427
1982	334	3,001	4,012	9,704	6,667	8,914
1983	328	3,490	4,361	9,325	5,941	7,425
1984	336	5,149	6,207	14,847	10,642	12,829
1985	342	6,570	7,362	18,925	12,315	13,798
1986	355	11,994	13,863	31,755	32,870	37,991
1987	389	26,172	32,884	20,353	70,185	88,183
1988	502	64,544	93,895	10,367	198,364	288,571
1989	626	95,477	140,119	11,757	280,967	412,338
1990	669	79,020	109,872	10,866	183,692	255,412
1991	686	73,118	95,541	14,022	214,263	279,973
1992	688	84,712	107,027	24,028	308,246	389,445
1993	693	112,665	138,870	35,130	574,048	707,566
1994	699	151,217	190,762	36,862	776,257	979,257
1995	721	141,151	181,943	26,130	487,762	628,721
1996	760	117,370	138,490	26,571	486,834	928,418
1997	776	70,989	41,881	41,525	555,759	327,881
1998	748	137,799	114,261	97,716	660,429	547,619
1999	725	349,504	307,662	278,551	3,481,620	3,064,806
2000	704	188,042	148,415	306,163	2,602,211	2,053,837
2001	689	255,850	194,785	473,241	1,997,420	1,520,685
2002 (through June 17, 2002)	670	317,134	240,727	688,204	3,719,077	2,823,043

Source: The Korea Stock Exchange

(1) Converted at the Federal Reserve Noon Rate on the first business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Supervisory Commission and the Korean Securities and Exchange Act. The Korean Securities and Exchange Act was fundamentally amended numerous times in recent years to broaden the scope and improve the effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for stockholders holding substantial interests.

Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Korea Stock Exchange. Remittance and repatriation of funds in connection with investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002 the Korea Stock Exchange opened a new options market for seven stocks (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company). Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Korea Stock Exchange or registered on the KOSDAQ, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Supervisory Commission sets forth procedural requirements for such investments. The Government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of all Korean companies which are not listed on the Korea Stock Exchange nor registered on the KOSDAQ and in bonds which are not listed.

Protection of Customer's Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Korea Stock Exchange and this securities company places a sell order with another securities company, which is a member of the Korea Stock Exchange, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Korean Securities and Exchange Act, the Korea Stock Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Korea Stock Exchange breaches its obligation in connection with a buy order, the Korea Stock Exchange is obliged to pay the purchase price on

behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification had been available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to ₩50 million. Pursuant to the Korean Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Korean Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Item 10. ADDITIONAL INFORMATION

ARTICLES OF INCORPORATION

Description of Capital Stock

Set forth below is information relating to our capital stock, including brief summaries of certain provisions of our articles of incorporation, the Korean Commercial Code, the Korean Securities and Exchange Act of 1976, as amended (the “Korean Securities and Exchange Act”) and certain related laws of Korea, all as currently in effect. The following summaries do not purport to be complete and are subject to the articles of incorporation and the applicable provisions of the Korean Securities and Exchange Act, the Korean Commercial Code, and certain other related laws of Korea.

As of December 31, 2001, our authorized share capital is 1,000,000,000 shares. Subject to applicable laws and regulations, we are authorized to issue shares of preferred stock up to one-half of all of the issued and outstanding shares under our articles of incorporation. Furthermore, through an amendment of the articles of incorporation, we may create new classes of shares, in addition to the common shares and the preferred shares. See “—Voting Rights.”

As of the date hereof, 317,677,416 shares of common stock were issued and outstanding. No preferred stocks are currently outstanding. All of the issued and outstanding shares are fully-paid and non-assessable, and are in registered form. Our authorized but unissued share capital consists of 682,322,584 shares. We may issue the unissued shares without further stockholder approval but these issuances are subject to a board resolution as provided in the articles of incorporation. See “—Preemptive Rights and Issuances of Additional Shares” and “—Dividends and Other Distributions—Distribution of Free Shares.”

Our articles of incorporation provide that our stockholders may, by special resolution, grant to our officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options exercisable for up to 1% of our issued and outstanding shares, provided that such grant must be approved at the general meeting of stockholders convened immediately after the date of granting such stock options. As of December 31, 2001, our officers, directors and employees held options to purchase 2,119,666 shares of our common stock. These outstanding options included options to purchase 1,090,000 shares of our common stock held by our chief executive officer. The exercise by our chief executive officer of options to purchase 200,000 shares of our common stock is subject to the satisfaction of certain conditions with respect to the price of our common stock on the Korea Stock Exchange.

Share certificates are issued in denominations of 1, 5, 10, 50, 100, 500, 1,000 and 10,000 shares.

Organization and Register

We are a banking corporation organized in Korea under the Korean Commercial Code and the Bank Act. We are registered with the commercial registry office of Seoul District Court.

Dividends and Other Distributions

Dividends. Dividends are distributed to stockholders in proportion to the number of shares of the relevant class of capital stock owned by each stockholder following approval by the stockholders at an annual general meeting of stockholders. Subject to the requirements of the Korean Commercial Code, the Bank Act and other applicable laws and regulations, we expect to pay full annual dividends on newly issued shares for the year in which the new shares are issued.

We declare our dividend annually at the annual general meeting of stockholders, which are held within three months after the end of each fiscal year. The annual dividend must be paid to the stockholders of record as of the end of the preceding fiscal year within one month after the annual general meeting. Annual dividends may be distributed either in cash or in shares provided that shares must be distributed at par value and, if the market price of the shares is less than their par value, dividends in shares may not exceed one-half of the annual dividend.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual dividend unclaimed for five years from the payment date.

The Bank Act and the regulations thereunder provide that a Korean bank shall not pay an annual dividend, unless each time it pays dividends it has set aside in its legal reserve an amount equal to at least one-tenth of its net income after tax and shall set aside such amount in its legal reserve until its legal reserve reaches at least the aggregate amount of its stated capital. Under the Bank Act and the regulations thereunder, we intend to set aside allowances for loan losses and reserves for severance pay in addition to the above legal reserve.

For information regarding Korean taxes on dividends, see “—Korean Taxation.”

Distribution of Free Shares. In addition to permitting dividends in the form of shares to be paid out of retained or current earnings, the Korean Commercial Code permits a company to distribute to its stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve to stated capital. These free shares must be distributed pro rata to all stockholders. Our articles of incorporation provide that the types of shares to be distributed to the holders of preferred shares will be determined by the board of directors. Holders of our ADSs will be able to participate in distributions of free shares to the extent described in “Item 12. Description of Securities Other Than Equity Securities—Description of American Depositary Shares—Dividends and Other Distributions—How will you receive dividends and other distributions on the shares?”

Preemptive Rights and Issuances of Additional Shares

Unless otherwise provided in the Korean Commercial Code, a company may issue authorized but unissued shares at such times and upon such terms as the board of directors of the company may determine. The company must offer the new shares on uniform terms to all stockholders who have preemptive rights and who are listed on the stockholders’ register as of the applicable record date. Our stockholders will be entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. However, as provided in our articles of incorporation, new shares may be issued to persons other than existing stockholders if such shares are:

- (1) publicly offered pursuant to the Korean Securities and Exchange Act;
- (2) issued to our employee stock ownership association as described below;
- (3) represented by our depositary receipts;
- (4) issued to certain foreign or domestic investors in the course of management of our bank pursuant to relevant laws and regulations;
- (5) issued upon exercise of stock options pursuant to the Korean Securities and Exchange Act;
- (6) issued to the Korean government or the Korea Deposit Insurance Corporation; or
- (7) issued primarily to a third party who has contributed to the management of our bank, including by providing financing, credit, advanced financing technique, know-how or entering into close business alliances.

Public notice of the preemptive rights to new shares and the transferability thereof must be given not less than two weeks (excluding the period during which the stockholders' register is closed) prior to the record date. We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before such deadline, the stockholder's preemptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Securities and Exchange Act, members of our employee stock ownership association, whether or not they are stockholders, will have a preemptive right, subject to certain exceptions, to subscribe for up to 20% of the shares publicly offered pursuant to the Korean Securities and Exchange Act. This right is exercisable only to the extent that the total number of shares so acquired and held by such members does not exceed 20% of the total number of shares then outstanding. As of December 31, 2001, our employee stock ownership association owned 2,287 of our shares of common stock.

Voting Rights

Each outstanding share of our common stock is entitled to one vote per share. However, voting rights with respect to shares of common stock that we hold and shares of common stock that are held by a corporate stockholder, where more than one-tenth of the outstanding capital stock is directly or indirectly owned by us, may not be exercised. Unless stated otherwise in a company's articles of incorporation, the Korean Securities and Exchange Act permits holders of an aggregate of 1% or more of the outstanding shares with voting rights to request cumulative voting when electing two or more directors. Our articles of incorporation do not prohibit cumulative voting. The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if approval is obtained from the holders of at least a majority of those shares of common stock present or represented at such meeting and such majority also represents at least one-fourth of the total of our issued and outstanding shares of common stock. Holders of non-voting shares (other than enfranchised non-voting shares) will not be entitled to vote on any resolution or to receive notice of any general meeting of stockholders unless the agenda of the meeting includes consideration of a resolution on which such holders are entitled to vote. If our annual general stockholders' meeting resolves not to pay to holders of preferred shares the annual dividend as determined by the board of directors at the time of issuance of such shares, the holders of preferred shares will be entitled to exercise voting rights from the general stockholders' meeting following the meeting adopting such resolution to the end of a meeting to declare to pay such dividend with respect to the preferred shares. Holders of such enfranchised preferred shares will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that to amend the articles of incorporation, which is also required for any change to the authorized share capital of the company, and in certain other instances, including removal of a director of a company, dissolution, merger or consolidation of a company, transfer of the whole or a significant part of the business of a company, acquisition of all of the business of any other company, acquisition of a part of the business of any other company having a material effect on the business of the company or issuance of new shares at a price lower than their par value, a special resolution must be adopted by the approval of the holders of at least two-thirds of those shares present or represented at such meeting and such special majority also represents at least one-third of the total issued and outstanding shares with voting rights of the company.

In addition, in the case of amendments to the articles of incorporation or any merger or consolidation of a company or in certain other cases, where the rights or interest of the holders of the preferred shares are adversely affected, a resolution must be adopted by a separate meeting of holders of the preferred shares. Such a resolution may be adopted if the approval is obtained from stockholders of at least two-thirds of the preferred shares present or represented at such meeting and such preferred shares also represent at least one-third of the total issued and outstanding preferred shares of the company.

A stockholder may exercise his voting rights by proxy given to another stockholder. The proxy must present the power of attorney prior to the start of a meeting of stockholders.

Liquidation Rights

In the event we are liquidated, the assets remaining after the payment of all debts, liquidation expenses and taxes will be distributed to stockholders in proportion to the number of shares held. Holders of preferred shares have no preferences in liquidation.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We will be required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held when necessary or at the request of the holders of an aggregate of 3% or more of our outstanding shares of common stock or the holders of an aggregate of 0.75% or more of our outstanding stock with voting rights, who have held those shares at least for six months. Under the Korean Commercial Code, an extraordinary general meeting of stockholders may also be convened at the request of our audit committee, subject to a board resolution or court approval. Holders of non-voting shares may be entitled to request a general meeting of stockholders only to the extent the non-voting shares have become enfranchised as described under the section entitled “—Voting Rights” above, hereinafter referred to as “enfranchised non-voting shares”. Meeting agendas will be determined by the board of directors or proposed by holders of an aggregate of 3% or more of the outstanding shares with voting rights or by holders of an aggregate of 0.25% or more of such shares for at least six months by way of a written proposal to the board of directors at least six weeks prior to the meeting. Written notices or e-mail notices stating the date, place and agenda of the meeting must be given to the stockholders at least two weeks prior to the date of the general meeting of stockholders; however, notice may be given to holders of 1% or less of the total number of issued and outstanding shares which are entitled to vote, by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Stockholders who are not on the stockholders’ register as of the record date will not be entitled to receive notice of the general meeting of stockholders, and they will not be entitled to attend or vote at such meeting. Holders of enfranchised non-voting shares who are on the stockholders’ register as of the record date will be entitled to receive notice of the general meeting of stockholders and they will be entitled to attend and vote at such meeting. Otherwise, holders of non-voting shares will not be entitled to receive notice of or vote at general meetings of stockholders.

The general meeting of stockholders will be held at our head office, which is our registered head office, or, if necessary, may be held anywhere in the vicinity of our head office.

Rights of Dissenting Stockholders

Pursuant to the Korean Securities and Exchange Act, and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances (including, without limitation, if we

transfer all or any significant part of our business, if we acquire a part of the business of any other company and such acquisition has a material effect on our business or if we merge or consolidate with another company), dissenting holders of shares of our common stock and our preferred stock will have the right to require us to purchase their shares. To exercise such a right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders. Within 20 days (10 days in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which the relevant resolution is passed at such meeting, such dissenting stockholders must request in writing that we purchase their shares. We are obligated to purchase the shares from dissenting stockholders within one month after the end of such request period (within two months after the receipt of such request in the case of a merger or consolidation under the Law on Improvement of the Structure of Financial Industry) at a price to be determined by negotiation between the stockholder and us. If we cannot agree on a price with the stockholder through such negotiations, the purchase price will be the arithmetic mean of:

- (1) the weighted average of the daily stock prices on the Korea Stock Exchange for the two-month period prior to the date of the adoption of the relevant board of directors' resolution;
- (2) the weighted average of the daily stock prices on the Korea Stock Exchange for the one-month period prior to the date of the adoption of the relevant board of directors' resolution; and
- (3) the weighted average of the daily stock prices on the Korea Stock Exchange for the one-week period prior to the date of the adoption of the relevant board of directors' resolution.

However, the Financial Supervisory Commission may adjust such price if we or at least 30% of the dissenting stockholders do not accept such purchase price and request the Financial Supervisory Commission to adjust the purchase price not later than ten days prior to the end of the one month purchase period. In the case of a merger or consolidation pursuant to the Law on the Improvement of the Structure of Financial Industry where the government or the Korea Deposit Insurance Corporation provides financial support, if a price cannot be agreed upon by the relevant parties, the purchase price will be determined by an accounting expert. However, the court may adjust such price if we or holders of at least 30% of our shares that we are obligated to purchase do not accept such purchase price and request the court to adjust the purchase price by no later than 30 days from the date of the determination of the purchase price.

Required Disclosure of Ownership

Under Korean law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report the status of their holdings to the Financial Supervisory Commission and other relevant governmental authorities. For a description of such required disclosure of ownership, see “—Exchange Controls and Securities Regulations—Reporting Requirements for Holders of Substantial Interests” and “Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership.”

Other Provisions

Register of Stockholders and Record Dates. We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, the register of stockholders may be closed for the period following December 31 and ending on January 31. Further, the Korean Commercial Code and our articles of incorporation permit us upon at least two weeks' public notice to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. The trading of shares and the delivery of certificates in respect thereof may continue while the register of stockholders is closed.

Annual Report. At least one week before the annual general meeting of stockholders, we must make our annual report and audited financial statements available for inspection at our head office and at all of our branch offices. Copies of annual reports, the audited financial statements and any resolutions adopted at the general meeting of stockholders are available to our stockholders.

Under the Korean Securities and Exchange Act, we must file with the Korean Financial Supervisory Commission and the Korea Stock Exchange an annual report within 90 days after the end of each fiscal year, a half-year report within 45 days after the end of the first six months of each fiscal year and quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year, respectively. Copies of such reports will be available for public inspection at the Korean Financial Supervisory Commission and the Korea Stock Exchange.

Transfer of Shares. Under the Korean Commercial Code, the transfer of shares is effected by the delivery of share certificates. The Korean Securities and Exchange Act provides, however, that in case of a company listed on the Korea Stock Exchange such as us, share transfers can be effected by the book-entry method. In order to assert stockholders' rights against us, the transferee must have his name and address registered on the register of stockholders. For this purpose, stockholders are required to file with us their name, address and seal. Non-resident stockholders must notify us of the name of their proxy in Korea to which our notice can be sent. Under current Korean regulations, the Korea Securities Depository, internationally recognized foreign custodians, investment trust companies, futures trading companies, foreign exchange banks (including domestic branches of foreign banks), and securities companies (including domestic branches of foreign securities companies) may act as agents and provide related services for foreign stockholders. In addition, foreign stockholders may appoint a standing proxy among the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf. Certain foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See "—Exchange Controls and Securities Regulations." Except as provided in the Bank Act, the ceiling on the aggregate shareholdings of a single stockholder and persons who stand in a special relationship with such stockholder is 4% (or 10%, from the effective date of the recent amendments to the Bank Act) of our issued and outstanding voting shares. See "Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership."

Acquisition of our Shares. We generally may not acquire our own shares except in certain limited circumstances, including, without limitation, a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Korean Securities and Exchange Act and regulations under the Bank Act and after submission of certain reports to the Korean Financial Supervisory Commission, we may purchase our own shares on the Korea Stock Exchange or through a tender offer, subject to the restrictions that

- (1) the aggregate purchase price of such shares may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year; and

(2) the purchase of such shares shall meet the risk-adjusted capital ratio under Bank for International Settlements standards.

In general, subsidiaries of which we own 50% or more will not be permitted to acquire our shares.

EXCHANGE CONTROLS AND SECURITIES REGULATIONS

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree, which we refer to collectively as the “Foreign Exchange Transaction Laws,” regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. Under the Foreign Exchange Transaction Laws, non-residents may invest in Korean securities only to the extent specifically allowed by these laws or otherwise permitted by the Ministry of Finance and Economy of Korea. The Financial Supervisory Commission has also adopted, pursuant to its authority under the Korean Securities and Exchange Act, regulations that restrict investment by foreigners in Korean securities and regulate issuance of securities outside Korea by Korean companies.

Under the Foreign Exchange Transaction Laws, (1) if the Korean government deems that it is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other situations equivalent thereto, the Ministry of Finance and Economy may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and (2) if the Korean government deems that international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Finance and Economy 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 governmental agencies or financial institutions, in each case subject to certain limitations.

Issuance of ADSs

In order for the selling stockholder to offer the ADSs representing our common shares in an amount exceeding US\$30 million, a prior report of the issuance must be filed with the Ministry of Finance and Economy. No further Korean governmental approval is necessary for the offering and issuance of our ADSs.

Under current Korean laws and regulations, the depository is required to obtain the prior consent of us for the number of shares of our common stock to be deposited in any given proposed deposit which exceeds the difference between:

(1) the aggregate number of shares of our common stock deposited by us for the issuance of our ADSs (including deposits in connection with the initial issuance and all subsequent offerings of our ADSs and stock dividends or other distributions related to these ADSs); and

(2) the number of shares of our common stock on deposit with the depository at the time of such proposed deposit.

We have agreed to grant such consent to the extent that the total number of shares on deposit with the depository would not exceed 100,000,000 at any time.

Reporting Requirements for Holders of Substantial Interests

Any person whose direct or beneficial ownership of our common stock with voting rights, whether in the form of shares of common stock or ADSs, certificates representing the rights to

subscribe for shares and equity-related debt securities including convertible bonds and bonds with warrants (which we refer to collectively as “Equity Securities”), together with the Equity Securities beneficially owned by certain related persons or by any person acting in concert with the person, accounts for 5% or more of the total outstanding shares (plus Equity Securities of us held by such persons) is required to report the status of the holdings to the Financial Supervisory Commission and the Korea Stock Exchange within five business days after reaching the 5% ownership interest. In addition, any change in the ownership interest subsequent to the report that equals or exceeds 1% of the total outstanding Equity Securities of us is required to be reported to the Financial Supervisory Commission and the Korea Stock Exchange within five business days from the date of the change.

Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the Financial Supervisory Commission may order the disposal of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a “major stockholder”) must report the status of his/her shareholding to the Korea Securities Futures Commission and the Korea Stock Exchange within ten days after he/she becomes a major stockholder. In addition, any change in the ownership interest subsequent to the report must be reported to the Korea Securities Futures Commission and the Korea Stock Exchange within the 10th day of the month following the month in which the change occurred. Violation of these reporting requirements may subject a person to criminal sanctions such as fines or imprisonment.

Any single stockholder or persons who stand in a special relationship with such stockholder that acquire more than 4% (or 10%, from July 28, 2002, the effective date of the recent amendment to the Bank Act) of the voting stock of a Korean bank pursuant to the Bank Act will be subject to reporting or approval requirements. See “Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership.”

Restrictions Applicable to ADSs

No Korean governmental approval is necessary for the sale and purchase of our ADSs in the secondary market outside Korea or for the withdrawal of shares of our common stock underlying the ADSs and the delivery inside Korea of shares in connection with the withdrawal, provided that a foreigner who intends to acquire the shares must obtain an investment registration card from the Financial Supervisory Service as described below. The acquisition of the shares by a foreigner must be immediately reported to the governor of the Financial Supervisory Commission, either by the foreigner or by his standing proxy in Korea.

Persons who have acquired shares of our common stock as a result of the withdrawal of shares underlying our ADSs may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Restrictions Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Supervisory Commission regulations (which we refer to collectively as the “Investment Rules”) adopted in connection with the stock market opening from January 1992 and after that date, foreigners may invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Korea Stock Exchange or registered on the KOSDAQ, unless prohibited by specific laws. Foreign investors may trade shares listed on the Korea Stock

Exchange or registered on the KOSDAQ only through the Korea Stock Exchange or the KOSDAQ, except in limited circumstances, including:

- odd-lot trading of shares;
- acquisition of shares (which we refer to as “Converted Shares”) by exercise of warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;
- acquisition of shares as a result of inheritance, donation, bequest or exercise of stockholders’ rights, including preemptive rights or rights to participate in free distributions and receive dividends; and
- over-the-counter transactions between foreigners of a class of shares for which the ceiling on aggregate acquisition by foreigners, as explained below, has been reached or exceeded subject to certain exceptions.

For over-the-counter transactions of shares between foreigners outside the Korea Stock Exchange or the KOSDAQ for shares with respect to which the limit on aggregate foreign ownership has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Korea Stock Exchange or the KOSDAQ must involve a licensed securities company in Korea as the other party. Foreign investors are prohibited from engaging in margin transactions with respect to shares which are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the Korea Stock Exchange or the KOSDAQ (including Converted Shares and shares being issued for initial listing on the Korean Stock Exchange or registration on KOSDAQ) to register its identity with the Financial Supervisory Service prior to making any such investment; however, the registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling such Converted Shares within three months from the date of acquisition of the Converted Shares. Upon registration, the Financial Supervisory Service will issue to the foreign investor an investment registration card, which must be presented each time the foreign investor opens a brokerage account with a securities company. Foreigners eligible to obtain an investment registration card include foreign nationals who have not been residing in Korea for a consecutive period of six months or more, foreign governments, foreign municipal authorities, foreign public institutions, international financial institutions or similar international organizations, corporations incorporated under foreign laws and any person in any additional category designated by decree of the Ministry of Finance and Economy under the Korean Securities and Exchange Act. All Korean offices of a foreign corporation as a group are treated as a separate foreigner from the offices of the corporation outside Korea for the purpose of investment registration. However, a foreign corporation or depositary issuing depositary receipts may obtain one or more investment registration cards in its name in certain circumstances as described in the relevant regulations.

Upon a foreign investor’s purchase of shares through the Korea Stock Exchange or the KOSDAQ, no separate report by the investor is required because the investment registration card system is designed to control and oversee foreign investment through a computer system. However, a foreign investor’s acquisition or sale of shares outside the Korea Stock Exchange or the KOSDAQ (as discussed above) must be reported by the foreign investor or his standing proxy to the governor of the Financial Supervisory Service at the time of each such acquisition or sale; *provided, however*, that a foreign investor must ensure that any acquisition or sale by it of shares outside the Korea Stock Exchange or the KOSDAQ in the case of trades in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, is reported to the governor of the Financial Supervisory Service by the

securities company engaged to facilitate such transaction. A foreign investor may appoint a standing proxy from among the Korea Securities Depository, foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), investment trust companies, futures trading companies and internationally recognized custodians which will act as a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if the foreign investor does not perform these activities himself. Generally, a foreign investor may not permit any person, other than its standing proxy, to exercise rights relating to his shares or perform any tasks related thereto on his behalf. However, a foreign investor may be exempted from complying with these standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed inevitable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in custody with an eligible custodian in Korea. Only foreign exchange banks (including domestic branches of foreign banks), securities companies (including domestic branches of foreign securities companies), the Korea Securities Depository, investment trust companies, futures trading companies and internationally recognized custodians are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that his custodian deposits his shares with the Korea Securities Depository. However, a foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the home country of such foreign investor.

Under the Investment Rules, with certain exceptions, foreign investors may acquire shares of a Korean company without being subject to any foreign investment ceiling. As one such exception, designated public corporations are subject to a 40% ceiling on the acquisition of shares by foreigners in the aggregate. Designated public corporations may set a ceiling on the acquisition of shares by a single person within 3% of the total number of shares. Currently, Korea Electric Power Corporation is the only designated public corporation which has set such a ceiling. Furthermore, an investment by a foreign investor in 10% or more of the outstanding shares with voting rights of a Korean company is defined as a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to the Ministry of Commerce, Industry and Energy of Korea. The acquisition of shares of a Korean company by a foreign investor may also be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of such restrictions applicable to Korean banks, see "Item 4. Information on the Company—Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership."

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. No approval is required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. No Korean governmental approval is required for foreign investors to receive dividends on, or the Won proceeds of the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or in his Won account. Funds in the investor's Won account may

be transferred to his foreign currency account or withdrawn for local living expenses up to certain limitations. Funds in the Won account may also be used for future investment in shares or for payment of the subscription price of new shares obtained through the exercise of preemptive rights.

Securities companies and investment trust companies are allowed to open foreign currency accounts with foreign exchange banks exclusively for accommodating foreign investors' stock investments in Korea. Through these accounts, securities companies and investment trust companies may enter into foreign exchange transactions on a limited basis, such as conversion of foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

UNITED STATES TAXATION

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares and ADSs. This summary applies to you only if you hold the common shares and ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

- a dealer in securities or currencies;
- a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;
- a bank;
- a life insurance company;
- a tax-exempt organization;
- a person that holds common shares and ADSs that are a hedge or that are hedged against interest rate or currency risks;
- a person that holds common shares and ADSs as part of a straddle or conversion transaction for tax purposes;
- a person whose functional currency for tax purposes is not the U.S. dollar; or
- a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares and ADSs in your particular circumstances.

For purposes of this summary, you are a “U.S. holder” if you are a beneficial owner of a common share or an ADS and are:

- a citizen or resident of the United States;
- a U.S. domestic corporation; or
- otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

If you are not a U.S. holder (a “non-U.S. holder”), the discussion below under “—Non-U.S. Holders” will apply to you.

U.S. Holders

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common share represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depository's receipt in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on the sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at a maximum rate of 20%.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, at your election, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax will be treated for U.S. federal income tax purposes as imposed on "general limitation" income. Such treatment may affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

Non-U.S. Holders

If you are a non-U.S. holder, any dividends received on common shares or ADSs and any gain you realize on a sale or exchange of common shares or ADSs generally will be exempt from U.S. federal income tax, including withholding tax. However, to receive this exemption you may be required to satisfy certain certification requirements of the United States Internal Revenue Service to establish that you are not a United States person. See "—U.S. Information Reporting and Backup Withholding Rules" below.

Even if you are a non-U.S. holder, you still may be subject to United States federal income taxes on any dividends received on common shares or ADSs and on any gain you realize on the sale or exchange of common shares or ADSs if you have an office, a fixed place of business, or a tax home in the United States and certain other conditions exist.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

KOREAN TAXATION

The following summary of Korean tax considerations applies to you so long as you are not:

- a resident of Korea;
- a corporation organized under Korean law; or
- engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

The statements regarding Korean tax laws set forth below are based on the laws in force and as interpreted by the Korean taxation authorities as of the date of this document. This summary is not exhaustive of all possible tax considerations that may apply to a particular investor and potential investors are advised to satisfy themselves as to the overall tax consequences of the acquisition, ownership and disposition of the common shares or ADSs, including specifically the tax consequences under Korean law, the laws of the jurisdiction of which they are resident and any tax treaty between Korea and their country of residence, by consulting their own tax advisers.

Taxation of Dividends

We will deduct Korean withholding tax from dividends paid to you at a rate of 27.5% (including resident surtax). If you are a resident of a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. For example, if you are a qualified resident of the United States for purposes of the income tax treaty currently in effect between Korea and the United States and you are the “beneficial owner” of a dividend, a reduced withholding tax rate of 16.5% or 11.0%, depending on your shareholding ratio, will apply. You will not be entitled to claim treaty benefits if you are not the beneficial owner of a dividend.

In order to obtain the benefits of a reduced withholding tax rate under a tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as may be required by the Korean tax authorities. Evidence of tax residence may be submitted to us through the depository bank. In addition, on or after July 1, 2002, in order to obtain the benefit of a tax exemption available under applicable tax treaties, you should submit an application for exemption prior to the time of the first dividend payment, together with a certificate of your tax residence issued by a competent authority of your country. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have tax withheld at a lower rate.

If we distribute to you free shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in-capital, that distribution may be subject to Korean withholding tax.

Taxation of Capital Gains

You may be exempt from Korean taxation on capital gains recognized from the sale of our shares through the Korea Stock Exchange, unless you have owned, together with certain related parties 25% or more of our total issued and outstanding shares at any time during the year of sale and the five calendar years before the year of sale. As for the ADSs, the Korean taxation authorities have issued a tax ruling confirming that capital gains earned by a non-Korean holder from the transfer of ADSs outside of Korea are exempt from Korean taxation by the virtue of the Special Tax Treatment Control Law of Korea, provided that the issuance of the ADSs is deemed to be an overseas issuance under the Special Tax Treatment Control Law.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of shares of common stock which you acquired as a result of a withdrawal, your gain will be calculated based on your cost of acquiring the ADSs representing the shares of common stock although there are no specific Korean tax provisions or rulings on this issue. In the absence of the application of a tax treaty which exempts or reduces the rate of tax on capital gains, the amount of Korean tax imposed on your capital gains will be the lesser of 27.5% (subject to the production of satisfactory evidence of the acquisition costs and the transaction costs of the ADSs) of the net capital gains or 11% of the gross realization proceeds for transactions.

If you sell your shares of common stock or ADSs, the purchaser or, in the case of the sale of shares of common stock on the Korea Stock Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% of the gross realization proceeds and to make payment of these amount to the Korean tax authority, unless you establish your entitlement to an exemption or lower rate of taxation under an applicable tax treaty or produce satisfactory evidence of your acquisition cost for the ADSs. To obtain the benefit of a reduced rate of tax pursuant to a tax treaty, you must submit to the purchaser or the securities company, or through the depository bank, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty protection. In addition, effective July 1, 2002, Korean tax law requires a non-resident seller to submit an application for exemption prior to the time of the first payment, with a certificate of tax residence of the seller issued by a competent authority of the seller's residence country, in order to obtain the benefit of a tax treaty exemption available under applicable tax treaties. However, this requirement will not apply to exemptions under Korean tax law. Excess taxes withheld may not be recoverable even if you subsequently produce evidence that you were entitled to have taxes withheld at a lower rate.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the shares of common stock underlying the ADSs. If you are treated as the owner of the shares of common stock, your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%; provided that the value of the ADSs is greater than a specified amount.

If you die while holding a share of common stock or donate a share of common stock, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

Securities Transaction Tax

You will not pay a securities transaction tax on your transfer of ADSs. If you transfer shares of common stock, you will be subject to a securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the shares of common stock when traded on the Korea Stock Exchange. If your transfer is not made on the Korea Stock Exchange, subject to certain exceptions, you will be subject to a securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

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 depository shares or upon the surrender of depository shares and withdrawal of originally deposited underlying stock. However, questions have recently been raised by certain Korean tax officials as to whether this ruling also applies to the surrender of depository shares and withdrawal of underlying stock by a subsequent (as opposed to the initial) holder of depository shares. Accordingly, in the case of holders

of ADSs other than initial holder, the non-applicability of the securities transaction tax to withdrawals of common shares upon the surrender of ADSs is not entirely certain under Korean tax law.

Securities transaction tax, if applicable, must be paid in principle by the transferor of the shares or the rights to subscribe to such shares. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authority. When such transfer is made through a securities company, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

DOCUMENTS ON DISPLAY

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are not required to make filings with the Commission by electronic means, although we may do so. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information required by this Item is contained in “Item 4. Information on the Company—Business—Risk Management—Market Risk.”

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

DESCRIPTION OF AMERICAN DEPOSITARY SHARES

The Bank of New York, as depositary for our ADS facility, will execute and deliver the American depositary receipts. Each American depositary receipt is a certificate evidencing a specific number of ADSs. Each ADS will represent ownership interests in one share of our common stock (or the right to receive one share of our common stock) deposited with Korea Securities Depository, as agent of the depositary, also referred to as the “custodian.” Each ADS will also represent any other securities, cash or other property which may be held by the depositary under the deposit agreement. The deposited shares, together with any other securities, other property or cash held by the depositary under the deposit agreement, are referred to as deposited securities. Our ADSs are listed on the New York Stock Exchange, Inc. The depositary’s office is located at 101 Barclay Street, New York, New York 10286. The custodian’s office is located at 33 Yoido-dong, Youngdeungpo-ku, Seoul 150-010, Korea.

You may hold ADSs either directly (by having an American depositary receipt registered in your name) or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an American depositary receipt holder. This description assumes that you hold your ADSs directly. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of American depositary receipt holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

As an American depositary receipt holder, you will not be treated as a stockholder of us and you will not have stockholder rights. Korean law governs stockholder rights. The depositary will be the holder of the shares underlying your ADSs. As a holder of American depositary receipts, you will have American depositary receipt holder rights. A deposit agreement among us, the depositary, you, as an American depositary receipt holder and the beneficial owners of American depositary receipts sets out American depositary receipt holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the American depositary receipts. However, our obligations to our stockholders will be governed by the laws of Korea, which are different from the laws in the United States. In addition, we note that laws and regulations of Korea may restrict the deposit and withdrawal of our shares in or from the ADS facility. See “Item 10. Additional Information—Exchange Controls and Securities Regulations—Issuance of ADSs.”

The following is a summary of the material terms of the deposit agreement. Because it is a summary, it does not contain all the information that may be important to you. For more complete information, you should read the entire deposit agreement and the form of American depositary receipt. Directions on how to obtain copies of these are provided under the caption “Where You Can Find More Information.”

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay you the cash dividends or other distributions it or the custodian receives on shares or other deposited securities, after deducting its fees and expenses. You will receive these distributions in proportion to the number of shares your ADSs represent.

- *Cash.* The depositary will convert, as promptly as practicable, any cash dividend or other cash distribution we pay on the shares into U.S. dollars, if it can do so on a reasonable basis and can transfer the U.S. dollars to the United States. If that is not possible or if any approval from the Korean government is needed and cannot in the opinion of the depositary be

obtained, the agreement allows the depositary to distribute the Won only to those American depositary receipt holders to whom it is possible to do so. It will hold the Won it cannot convert for the account of the American depositary receipt holders who have not been paid. It will not invest the Won and it will not be liable for any interest.

Before making a distribution, the depositary will deduct any withholding taxes that must be paid under Korean law. See “Item 10. Additional Information—Korean Taxation”. It will distribute only whole U.S. dollars and cents and will round fractional cents to the nearest whole cent. *If the exchange rates fluctuate during a period when the depositary cannot convert the Korean currency, you may lose some or all of the value of the distribution.*

- *Shares.* The depositary may distribute, as promptly as practicable, additional ADSs representing any shares we distribute as a dividend or free distribution. The depositary may require that we furnish it promptly with satisfactory evidence that it is legal to do so. The depositary will only distribute whole ADSs. It will use reasonable efforts to sell shares which would require it to distribute a fractional ADS and distribute the net proceeds in the same way as it does with cash. If the depositary does not distribute additional ADSs, the outstanding ADSs will also represent the new shares.
- *Rights to receive additional shares.* If we offer holders of our securities any rights to subscribe for additional shares or any other rights, the depositary may make these rights available to you. The depositary must first determine whether it is lawful and feasible to do so. If the depositary determines that it is not lawful and feasible to make these rights available to you, the depositary will use reasonable efforts to sell the rights and distribute the proceeds in the same way as it would do with cash. The depositary may allow rights that are not distributed or sold to lapse. *In that case, you will receive no value for them.*

If the depositary makes rights available to you, it will exercise the rights and purchase the shares on your behalf. The depositary will then deposit the shares and deliver ADSs to you. It will only exercise rights if you pay it the exercise price and any other charges the rights require you to pay.

If a registration statement under the Securities Act is required with respect to the securities to which any rights relate in order for us to offer the rights to you and to sell the securities represented by the rights, the depositary will not offer such rights to you unless and until such a registration statement is in effect, or unless the offering and sale of such securities and such rights to you are exempt from or not subject to the registration requirements of the Securities Act. If you request a distribution, notwithstanding that there has been no such registration under the Securities Act, the depositary shall not effect such distribution unless it has received an opinion from recognized counsel in the United States for us that such distribution to you is exempt from such registration. The depositary will not be responsible for any failure to determine that it may be lawful or feasible to make the rights available to you.

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver the ADSs under a separate restricted deposit agreement which will contain the same provisions as the deposit agreement, except for changes needed to put the necessary restrictions in place.

- *Other Distributions.* The depositary will send to you anything else we distribute on deposited securities by any means it thinks is legal, fair and practical. If it cannot make the distribution in that way, the depositary has a choice. It may decide to sell what we distributed and

distribute the net proceeds, in the same way as it does with cash. Or, it may decide to hold what we distributed, in which case the ADSs will also represent the newly distributed property.

The depositary is not responsible if it decides that it is unlawful or impractical to make a distribution available to any American depositary receipt holders. We have no obligation to register ADSs, shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of American depositary receipts, shares, rights or anything else to American depositary receipt holders. *This means that you may not receive the distributions we make on our shares or any value for them if it is illegal or impractical for us to make them available to you.*

Deposit, Withdrawal and Cancellation

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposit shares or evidence of rights to receive shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, subject to applicable laws and regulations of Korea and our articles of incorporation, the depositary will register the appropriate number of ADSs in the names you request and will deliver the American depositary receipts at its office to the persons you request.

Under the deposit agreement, the depositary is not allowed to accept shares for deposit unless:

- we give our consent; or
- we notify the depositary that Korean law no longer requires our consent.

We have agreed to consent to any deposit so long as:

- the deposit would not violate our charter documents or Korean law; and
- the total number of our shares on deposit with the depositary would not exceed 100,000,000.

How do holders of ADSs cancel an American depositary receipt and obtain shares?

You may turn in your American depositary receipts at the depositary's office. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the deposited securities represented by your ADSs:

- (1) to an account designated by you at Korea Securities Depository; or
- (2) to your order at the custodian's office in Korea.

Or, at your request, risk and expense, the depositary will deliver the deposited securities at its office, if it is permitted to do so by applicable law. Once cancelled, the ADSs will not have any rights under the deposit agreement.

Voting Rights

How do you vote?

You may instruct the depositary to vote the shares underlying your ADSs. As soon as practicable, after it receives notice of a meeting from us, and if we so request, the depositary will send a notice to you of the upcoming vote and arrange to deliver our voting materials to you. The materials will:

- (1) describe the matters to be voted on;

(2) contain a statement that the holders as of the close of business on a specified record date will be entitled to instruct the depositary as to how to exercise voting rights for the number of shares of common stock or other deposited securities represented by their ADSs, subject to the provisions of applicable Korean law and our articles of incorporation, which provisions, if any, will be summarized in the notice to the extent that they are material; and

(3) explain how you may instruct the depositary to vote the shares or other deposited securities underlying your ADSs.

For instructions to be valid, the depositary must receive them in writing on or before the date specified. The depositary will try, as far as practical, subject to Korean law and the provisions of our articles of incorporation, to vote or to have its agents vote the shares or other deposited securities as you instruct in writing. If you do not provide the depositary with your voting instructions, the depositary will vote your shares in the same manner and in the same proportion as all other shares, which are voted on the matter in question, are voted.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote your shares. In addition, the depositary and its agents are not responsible for failing to carry out voting instructions or for the manner of carrying out voting instructions. *This means that you may not be able to exercise your right to vote and there may be nothing you can do if your shares are not voted as you requested.*

Due to restrictions under Korean law, you will not be entitled to instruct the depositary as to the exercise of voting rights with respect to any shares of common stock or other deposited securities represented by your ADSs which, when taken together with all other shares of common stock beneficially owned by you and certain of your affiliates, exceed 4% (or 10%, from July 28, 2002, the effective date of the recent amendment to the Bank Act) of the total number of shares of common stock at the time issued and outstanding, or any other limit under our articles of incorporation or applicable law of which we may from time to time notify the depositary. See “Item 3. Key Information—Risk Factors—Risks relating to our common stock and ADSs—Ownership of our common stock is restricted under Korean law.”

Dissent and Appraisal Rights

In some limited circumstances, including the transfer of the whole or any significant part of our business, our acquisition of a part of the business of any other company having a material effect on our business, our merger or consolidation with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. See “Item 10. Additional Information—Articles of Incorporation—Description of Capital Stock—Rights of Dissenting Stockholders.” However, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights unless you have withdrawn the underlying common stock and become a direct stockholder prior to the record date for the stockholders’ meeting at which the relevant transaction is to be approved.

Fees and Expenses

American depositary receipt holders must pay:

\$5.00 (or less) per 100 American depositary shares

\$.02 (or less) per ADS (to the extent permitted by the rules of any stock exchange on which ADSs are listed for trading)

A fee equivalent to the fee that would be payable upon deposit of shares for issuance of ADSs

Registration or transfer fees

Expenses of the depositary

Taxes and other charges the depositary or the custodian have to pay on any American depositary receipt or share underlying an American depositary receipt, such as stamp taxes, stock transfer taxes or fees

Any charges payable by the depositary or its agents in connection with servicing the deposited securities

For:

- Each issuance of American depositary shares, including as a result of a distribution of shares or rights or other property
- Each cancellation of American depositary shares for the purpose of withdrawal, including if the deposit agreement terminates
- Any distribution of cash to you
- Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to American depositary receipt holders
- Transfer and registration of shares from your name to the name of the depositary or its agent when you deposit or from the depositary's name to your name when you withdraw
- Conversion of Won to U.S. dollars
- Cable, telex and facsimile transmission expenses (if expressly provided in the deposit agreement)
- As necessary
- As incurred

Payment of Taxes, Governmental Charges or Expenses

The depositary may deduct the amount of any taxes, governmental charges or expenses owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes, governmental charges or expenses owed. You will remain liable if the proceeds of the sale are not enough to pay the taxes, governmental charges or expenses. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes, governmental charges or expenses.

Reclassifications, Recapitalizations and Mergers

If we:

- Change the nominal or par value of our shares
- Reclassify, split up or consolidate any of the deposited securities
- Distribute securities on the shares that are not distributed to you
- Recapitalize, reorganize, merge, liquidate, sell all or substantially all of our assets, or take any similar action

Then:

- The cash, shares or other securities received by the depositary will become deposited securities. Each ADS will automatically represent its equal share of the new deposited securities.

- The depositary may, and will if we ask it to, distribute some or all of the cash, shares or other securities it received. It may also deliver new American depositary receipts or ask you to surrender your outstanding American depositary receipts in exchange for new American depositary receipts identifying the new deposited securities.

Disclosure of Beneficial Ownership of ADSs

We have a right to request you to tell us who beneficially owns your ADSs and the capacity in which those ADSs are owned. The depositary has agreed to help us obtain this information.

Limitations on Ownership of Shares and ADSs

We have the right to block transfers of our shares to prevent violation of limitations on ownership that are set forth in our articles of incorporation and applicable law. We describe these limitations under “Supervision and Regulation—Principal Regulations Applicable to Banks—Restrictions on Bank Ownership.”

For purposes of the ownership limitations referred to above, we consider ownership of ADSs to be the same as ownership of the underlying shares. Under the deposit agreement, we have a right to block transfers of ADSs to prevent violation of the ownership limitations. We may direct the depositary to take actions to eliminate ownership in violation of applicable limitations, including canceling ADSs and selling the underlying shares. However, the depositary will only take these actions if they are permitted by applicable law.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the American depositary receipts without your consent for any reason. If the amendment adds or increases fees or charges, except for taxes and other governmental charges or certain expenses of the depositary, or prejudices an important right of American depositary receipt holders, it will only become effective 30 days after the depositary notifies you of the amendment. In no event may any amendment impair your right to surrender your American depositary receipts and receive the shares represented thereby, except in order to comply with mandatory provisions of applicable law. *At the time an amendment becomes effective, you are considered, by continuing to hold your American depositary receipt, to agree to the amendment and to be bound by the American depositary receipts and the deposit agreement as amended.*

How may the deposit agreement be terminated?

The depositary will terminate the deposit agreement if we ask it to do so. The depositary may also terminate the deposit agreement if it has informed us of its intent to resign and we have not appointed a new depositary bank within 90 days. In either case, the depositary must notify you of such intention at least 30 days before termination.

After termination, the depositary and its agents will perform the following under the deposit agreement, but nothing else:

- advise you that the deposit agreement is terminated;
- sell rights as provided in the deposit agreement;
- collect distributions on the deposited securities and any other property represented by the outstanding American depositary receipts; and

- deliver shares and other deposited securities upon cancellation of American depositary receipts.

On and after the date of termination, you will be entitled to receive the amount of deposited securities underlying an American depositary receipt upon:

- (1) surrender of the American depositary receipt at the corporate trust office of the depositary;
- (2) payment of the fees of the depositary for the surrender of the American depositary receipt; and
- (3) payment of any applicable taxes or governmental charges.

One year after termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the agreement for the pro rata benefit of the American depositary receipt holders who have not surrendered their American depositary receipts. It will not invest the money and has no liability for interest. The depositary's only obligations will be some indemnification obligations and to account for the money and other cash or property. After termination, our only obligations will be to indemnify the depositary for losses and to pay the depositary's expenses.

Limitations on Obligations and Liability

Limits on Our Obligations and the Obligations of the Depositary; Limits on Liability to Holders of American Depositary Receipts

The deposit agreement expressly limits our obligations and the obligations of the depositary. It also limits our liability and the liability of the depositary. We and the depositary:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if either of us is prevented or delayed by law or circumstances beyond our control from performing our obligations under the deposit agreement;
- are not liable if either of us exercises discretion permitted under the deposit agreement;
- have no obligation to become involved in a lawsuit or other proceeding related to the American depositary receipts or the deposit agreement on your behalf or on behalf of any other party; and
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party.

In the deposit agreement, we agree to indemnify the depositary for acting as depositary, except for losses caused by the depositary's own negligence or bad faith, and the depositary agrees to indemnify us for losses resulting from its negligence or bad faith.

Requirements for Depositary Actions

Before the depositary delivers an American depositary receipt or registers a transfer of an ADS, makes a distribution on an ADS, or permits withdrawal of shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any shares or other deposited securities;

- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary or proper or as we may require; and
- compliance with regulations it may establish, from time to time, consistent with the deposit agreement, including presentation of transfer documents.

The depositary may refuse to deliver ADSs or register transfers of American depositary receipts generally when the transfer books of the depositary, our transfer books or the Korea Securities Depository are closed or at any time if the depositary or we think it necessary or advisable to do so.

Limits on Your Right to Receive the Shares Underlying Your American Depositary Receipts

You have the right to cancel your American depositary receipts and withdraw the underlying shares at any time except:

- When temporary delays arise because:
 - the depositary has closed its transfer books or we have closed our transfer books;
 - the transfer of shares is blocked to permit voting at a stockholders' meeting; or
 - we are paying a dividend on the shares.
- When you or other American depositary receipt holders seeking to withdraw shares owe money to pay fees, taxes and similar charges.
- When it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to American depositary receipts or to the withdrawal of shares or other deposited securities.

This right of withdrawal may not be limited by any other provision of the deposit agreement.

Pre-Release of American Depositary Receipts

The depositary may deliver American depositary receipts before deposit of the underlying shares. This is called a pre-release of the American depositary receipt. The depositary may also deliver shares upon cancellation of pre-released American depositary receipts, even if the American depositary receipts are canceled before the pre-release transaction has been closed out. A pre-release is closed out as soon as the underlying shares are delivered to the depositary. The depositary may receive American depositary receipts instead of shares to close out a pre-release. The deposit agreement permits pre-release of American depositary receipts only under the following conditions:

- before or at the time of the pre-release, the person to whom the pre-release is being made must represent to the depositary in writing that it or its customer owns the shares or American depositary receipts to be deposited;
- the pre-release must be fully collateralized with cash, U.S. government securities or such other collateral as the depositary determines, in good faith, will provide similar liquidity and security;
- the depositary must be able to close out the pre-release on not more than five (5) business days' notice; and
- the pre-release is subject to further indemnities and credit regulations as the depositary deems appropriate.

In addition, the depositary will limit the number of ADSs that may be outstanding at any time as a result of pre-release, although the depositary may disregard the limit from time to time, if it thinks it is reasonably appropriate to do so.

Items 13 to 17. Not applicable

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

Item 19. EXHIBITS

(a) List of Financial Statements:

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Audited consolidated financial statements of Kookmin Bank and subsidiaries prepared in accordance with U.S. GAAP	
Report of Independent Accountants	F-1
Consolidated balance sheets as of December 31, 2000 and 2001	F-2
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Unaudited non-consolidated quarterly financial statements of Kookmin Bank prepared in accordance with Korean GAAP	
Non-consolidated quarterly balance sheets as of March 31, 2002 and 2001	U-1
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Notes to non-consolidated quarterly financial statements	U-3

(b) Exhibits

<u>Number</u>	<u>Description</u>
1.1*	Articles of Incorporation of Kookmin Bank (in English and Korean).
2.1**	Form of Share Certificate of Kookmin Bank's common stock, par value ₩5,000 per share (in English and Korean).
2.2**	Form of Amended and Restated Deposit Agreement to be entered into among Kookmin Bank, The Bank of New York, as depositary, and all owners and holders from time to time of American depositary receipts issued thereunder, including the form of American depositary receipt (incorporated herein by reference to Exhibit (a) of the registrants' Registration Statement on Form F-6 (Registration No. 333-13882) filed on September 5, 2001).
4.1**	Amended and Restated Investment Agreement dated as of September 4, 2001 between Kookmin Bank and Goldman Sachs Capital Koryo, L.P.
4.2**	Investment Agreement dated as of July 15, 1999 between H&CB, ING Insurance International B.V. and ING Verzekeringen N.V. (as amended).
4.3*	Waiver Agreement dated as of October 31, 2001 among H&CB, ING Insurance International B.V., ING Life Insurance Company, Korea Ltd. and Joeun Investment Trust Management Co., Ltd.
4.4**	Merger Agreement, dated as of April 23, 2001, by and between Kookmin Bank and H&CB.
8.1***	List of subsidiaries of Kookmin Bank.

* Incorporated by reference to the registrant's previous filing on Form F-1 (No. 333-90074), filed on June 4, 2002.

** Incorporated by reference to the registrant's previous filing on Form F-4 (No. 333-13880), filed on September 10, 2001.

*** Incorporated by reference to Note 36 of the consolidated financial statements of Kookmin Bank included in this annual report.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of Kookmin Bank:

We have audited the accompanying consolidated balance sheets of Kookmin Bank and its subsidiaries (the "Bank") as of December 31, 2001 and 2000, and the related consolidated statements of income and comprehensive income, of changes in stockholders' equity, and of cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank at December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States of America.

As more fully discussed in Note 1 to the consolidated financial statements, the Bank has been significantly affected, and may continue to be affected for the foreseeable future, by the general adverse economic conditions in the Republic of Korea and in the Asia Pacific region.

PRICEWATERHOUSECOOPERS

Seoul, Korea
May 28, 2002

KOOKMIN BANK AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	As of December 31,		
	2000	2001	2001
	Korean Won (in millions, except share data)	Korean Won (in millions, except share data)	US Dollars (Note 1) (in thousands, except share data)
ASSETS			
Cash and cash equivalents	1,701,471	3,040,690	2,314,952
Restricted cash	1,539,876	4,372,927	3,329,217
Interest-bearing deposits in other banks	1,586,600	592,267	450,907
Call loans and securities purchased under resale agreements	2,491,208	2,012,301	1,532,014
Trading assets	3,103,688	6,874,493	5,233,721
Available-for-sale securities	8,281,394	12,323,965	9,382,539
Held-to-maturity securities (fair value of 9,300,752 in 2000 and 13,514,623 in 2001)	9,004,481	13,224,672	10,068,270
Loans (net of allowance for loan losses of 2,393,647 in 2000 and 3,507,583 in 2001)	57,040,649	117,452,186	89,419,251
Due from customers on acceptances	1,916,111	1,887,245	1,436,806
Premises and equipment, net	1,153,118	2,030,381	1,545,779
Accrued interest and dividends receivable	1,107,219	1,159,580	882,817
Security deposits	689,739	1,243,770	946,913
Other assets	1,174,992	2,015,476	1,534,432
Total assets	<u>90,790,546</u>	<u>168,229,953</u>	<u>128,077,618</u>
LIABILITIES			
Deposits:			
Interest bearing	54,200,615	110,895,074	84,427,159
Non-interest bearing	1,982,268	4,141,427	3,152,971
Call money	581,112	2,701,216	2,056,502
Trading liabilities	717,767	286,677	218,254
Acceptances outstanding	1,916,111	1,887,245	1,436,806
Other borrowed funds	6,368,557	10,811,679	8,231,198
Accrued interest payable	2,310,986	4,617,215	3,515,200
Secured borrowings	1,467,990	5,501,468	4,188,404
Long-term debt	14,796,590	16,626,376	12,658,071
Other liabilities	2,482,462	2,818,465	2,145,767
Total liabilities	<u>86,824,458</u>	<u>160,286,842</u>	<u>122,030,332</u>
Commitments and contingencies (Notes 4, 9, 30, 31, 32, 33)			
Minority interest	220,874	308,360	234,762
STOCKHOLDERS' EQUITY			
Redeemable preferred stock (5,000 Won par value; issued and outstanding 32,000,000 shares in 2000 and zero shares in 2001)	160,000	—	—
Less: KDIC bonds (at face value) purchased in connection with preferred stock issued	(160,000)	—	—
Common stock, 5,000 Won par value, authorized 1 billion shares, issued and outstanding 177,459,723 shares in 2000 and 317,677,416 shares issued and 317,645,868 shares outstanding in 2001 (as adjusted to reflect a 1.688346 exchange of shares on November 1, 2001 in connection with the H&CB merger and a 6% stock dividend approved on March 22, 2002)	1,498,067	1,588,387	1,209,278
Additional paid-in capital	1,242,203	4,960,422	3,776,492
Retained earnings	819,114	810,230	616,848
Accumulated other comprehensive income, net of taxes	185,830	277,075	210,944
	<u>3,745,214</u>	<u>7,636,114</u>	<u>5,813,562</u>
Less: treasury stock, at cost, 31,548 shares in 2001	—	1,363	1,038
Total stockholders' equity	<u>3,745,214</u>	<u>7,634,751</u>	<u>5,812,524</u>
Total liabilities, minority interest and stockholders' equity	<u>90,790,546</u>	<u>168,229,953</u>	<u>128,077,618</u>

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

KOOKMIN BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

	For the years ended December 31,			
	1999	2000	2001	2001
	Korean Won (in millions, except per share amounts)			US Dollars (Note 1) (in thousands, except per share amounts)
Interest and dividend income				
Deposits in other banks	179,555	198,603	65,526	49,887
Loans, including fees	4,551,788	5,266,822	7,089,317	5,397,272
Trading assets	126,738	183,055	173,135	131,812
Investment securities	1,588,634	1,652,909	1,545,407	1,176,557
Call loans and securities purchased under resale agreements	37,197	55,258	100,611	76,598
Total interest and dividend income	<u>6,483,912</u>	<u>7,356,647</u>	<u>8,973,996</u>	<u>6,832,126</u>
Interest expense				
Deposits	2,613,069	3,035,861	3,537,666	2,693,313
Call money	68,504	61,884	40,963	31,186
Other borrowed funds	268,738	340,981	557,813	424,677
Secured borrowings	23,692	59,091	297,114	226,200
Long-term debt	1,524,005	1,142,083	926,499	705,367
Total interest expense	<u>4,498,008</u>	<u>4,639,900</u>	<u>5,360,055</u>	<u>4,080,743</u>
Net interest income	1,985,904	2,716,747	3,613,941	2,751,383
Provision for loan losses	1,010,400	261,929	1,264,000	962,314
Provision for guarantees and acceptances	4,182	14,094	(9,153)	(6,968)
Net interest income after provision for loan losses, guarantees and acceptances	<u>971,322</u>	<u>2,440,724</u>	<u>2,359,094</u>	<u>1,796,037</u>
Noninterest income				
Trust fees, net	95,805	119,662	217,353	165,476
Other fees and commission income	467,810	628,800	1,204,826	917,264
Net trading revenue	507,163	13,300	124,487	94,775
Net gain on investments	185,967	11,470	32,504	24,746
Gain on disposition of subsidiaries	14,972	—	—	—
Other noninterest income	125,967	93,222	123,169	93,772
Total noninterest income	<u>1,397,684</u>	<u>866,454</u>	<u>1,702,339</u>	<u>1,296,033</u>
Noninterest expense				
Salaries and employee benefits	659,031	705,547	1,058,069	805,534
Depreciation and amortization	115,727	118,194	178,965	136,250
Other administrative expenses	299,395	334,484	411,358	313,177
Credit card fees	78,871	141,791	239,719	182,504
Other fees and commissions	196,131	223,801	336,646	256,297
Loss on disposition of subsidiaries	56,213	—	—	—
Other noninterest expenses	126,236	158,810	181,099	137,875
Total noninterest expense	<u>1,531,604</u>	<u>1,682,627</u>	<u>2,405,856</u>	<u>1,831,637</u>

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

KOOKMIN BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME—(Continued)

	For the years ended December 31,			
	1999	2000	2001	2001
	Korean Won (in millions, except per share amounts)			US Dollars (Note 1) (in thousands, except per share amounts)
Income before income tax expense, minority interest, extraordinary gain and cumulative effect of accounting change	837,402	1,624,551	1,655,577	1,260,433
Income tax expense	350,472	629,556	624,679	475,584
Minority interest	6,275	80,770	84,224	64,122
Net income before extraordinary gain and cumulative effect of accounting change	<u>480,655</u>	<u>914,225</u>	<u>946,674</u>	<u>720,727</u>
Extraordinary gain on extinguishment of debt, net of tax expense of 5,930 million Won in 2000 and 26,055 million Won in 2001	—	13,323	58,539	44,567
Cumulative effect of accounting change, net of tax benefit of 5,936 million Won in 2001	—	—	(13,337)	(10,154)
Net income	<u>480,655</u>	<u>927,548</u>	<u>991,876</u>	<u>755,140</u>
Other comprehensive (loss) income, net of tax				
Foreign currency translation adjustments	(3,484)	(14,414)	(29,677)	(22,594)
Net unrealized gains (losses) on available-for-sale securities	(245,393)	186,241	120,922	92,061
Total other comprehensive (loss) income, net of tax	<u>(248,877)</u>	<u>171,827</u>	<u>91,245</u>	<u>69,467</u>
Comprehensive income	<u>231,778</u>	<u>1,099,375</u>	<u>1,083,121</u>	<u>824,607</u>
Net income per common share				
Basic:				
Income before extraordinary gain	2,982	4,860	4,486	3.42
Extraordinary gain	—	71	277	0.21
Cumulative effect of accounting change	—	—	(63)	(0.05)
Net income	<u>2,982</u>	<u>4,931</u>	<u>4,700</u>	<u>3.58</u>
Diluted:				
Income before extraordinary gain	2,506	4,182	4,063	3.09
Extraordinary gain	—	61	250	0.19
Cumulative effect of accounting change	—	—	(57)	(0.04)
Net income	<u>2,506</u>	<u>4,243</u>	<u>4,256</u>	<u>3.24</u>

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

KOOKMIN BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Preferred Stock		KDIC Bonds	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, net of tax	Treasury Stock	Total Stockholders' Equity
	Shares	Amount		Shares	Amount					
	Korean Won (in millions, except share data)									
Balance at January 1, 1999	40,000,000	200,000	(200,000)	139,959,086	1,181,497	669,015	(526,901)	262,880	(60)	1,586,431
Issuance of common shares	—	—	—	37,500,637	316,570	418,617	—	—	—	735,187
Cash dividends declared (338 Won per share)	—	—	—	—	—	—	(47,251)	—	—	(47,251)
Beneficial conversion feature	—	—	—	—	—	55,722	—	—	—	55,722
Reissuance of treasury stock	—	—	—	—	—	200	—	—	60	260
Changes in subsidiary ownership	—	—	—	—	—	(1,756)	—	—	—	(1,756)
Other comprehensive loss, net of tax	—	—	—	—	—	—	—	(248,877)	—	(248,877)
Net income	—	—	—	—	—	—	480,655	—	—	480,655
Balance at December 31, 1999	40,000,000	200,000	(200,000)	177,459,723	1,498,067	1,141,798	(93,497)	14,003	—	2,560,371
Redemption of preferred shares	(8,000,000)	(40,000)	—	—	—	—	—	—	—	(40,000)
Repayment of KDIC bonds	—	—	40,000	—	—	—	—	—	—	40,000
Grant of stock options	—	—	—	—	—	250	—	—	—	250
Deferred stock option compensation	—	—	—	—	—	(102)	—	—	—	(102)
Cash dividends declared (84 Won per share)	—	—	—	—	—	—	(14,937)	—	—	(14,937)
Changes in subsidiary ownership	—	—	—	—	—	100,257	—	—	—	100,257
Other comprehensive income, net of tax	—	—	—	—	—	—	—	171,827	—	171,827
Net income	—	—	—	—	—	—	927,548	—	—	927,548
Balance at December 31, 2000	32,000,000	160,000	(160,000)	177,459,723	1,498,067	1,242,203	819,114	185,830	—	3,745,214
Redemption of preferred shares	(32,000,000)	(160,000)	—	—	—	—	—	—	—	(160,000)
Repayment of KDIC bonds	—	—	160,000	—	—	—	—	—	—	160,000
Issuance of common shares upon conversion of bonds	—	—	—	2,353,202	19,865	18,498	—	—	—	38,363
Acquisition of treasury stock from dissenting stockholders	—	—	—	(37,692)	—	—	—	—	(1,273)	(1,273)
Retirement of treasury stock acquired from dissenting stockholders	—	—	—	37,692	—	—	—	—	1,273	1,273
Retirement of common shares exchanged in connection with the H&CB merger (Note 3)	—	—	—	(179,812,925)	(1,517,932)	(1,039,397)	—	—	—	(2,557,329)
Issuance of common shares upon exchange related to the H&CB merger (Note 3)	—	—	—	299,697,462	1,498,487	3,955,181	—	—	—	5,453,668
Acquisition of treasury stock	—	—	—	(41,548)	—	—	—	—	(1,795)	(1,795)
Grant of stock options	—	—	—	—	—	21,466	—	—	—	21,466
Deferred stock option compensation	—	—	—	—	—	(4,424)	—	—	—	(4,424)
Exercise of stock options	—	—	—	10,000	—	(382)	—	—	432	50
Cash dividends declared (844 Won per share)	—	—	—	—	—	—	(149,409)	—	—	(149,409)
Stock dividends declared (2,841 Won per share)	—	—	—	17,979,954	89,900	761,451	(851,351)	—	—	—
Changes in subsidiary ownership	—	—	—	—	—	5,826	—	—	—	5,826
Other comprehensive income, net of tax	—	—	—	—	—	—	—	91,245	—	91,245
Net income	—	—	—	—	—	—	991,876	—	—	991,876
Balance at December 31, 2001	—	—	—	317,645,868	1,588,387	4,960,422	810,230	277,075	(1,363)	7,634,751

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

KOOKMIN BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY—(Continued)

	Preferred Stock		KDIC Bonds	Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income, net of tax	Treasury Stock	Total Stockholders' Equity
	Shares	Amount		Shares	Amount					
	US Dollars (Note 1) (in thousands, except share data)									
Balance at December 31, 2000	32,000,000	121,812	(121,812)	177,459,723	1,140,515	945,720	623,612	141,477	—	2,851,324
Redemption of preferred shares	(32,000,000)	(121,812)	—	—	—	—	—	—	—	(121,812)
Repayment of KDIC bonds	—	—	121,812	—	—	—	—	—	—	121,812
Issuance of common shares upon conversion of bonds	—	—	—	2,353,202	15,124	14,083	—	—	—	29,207
Acquisition of treasury stock from dissenting stockholders	—	—	—	(37,692)	—	—	—	—	(969)	(969)
Retirement of treasury stock acquired from dissenting stockholders	—	—	—	37,692	—	—	—	—	969	969
Retirement of common shares exchanged in connection with the H&CB merger (Note 3)	—	—	—	(179,812,925)	(1,155,639)	(791,318)	—	—	—	(1,946,957)
Issuance of common shares upon exchange related to the H&CB merger (Note 3)	—	—	—	299,697,462	1,140,835	3,011,177	—	—	—	4,152,012
Acquisition of treasury stock	—	—	—	(41,548)	—	—	—	—	(1,367)	(1,367)
Grant of stock options	—	—	—	—	—	16,343	—	—	—	16,343
Deferred stock option compensation	—	—	—	—	—	(3,368)	—	—	—	(3,368)
Exercise of stock options	—	—	—	10,000	—	(291)	—	—	329	38
Cash dividends declared (844 Won per share)	—	—	—	—	—	—	(113,750)	—	—	(113,750)
Stock dividends declared (2,841 Won per share)	—	—	—	17,979,954	68,443	579,711	(648,154)	—	—	—
Changes in subsidiary ownership	—	—	—	—	—	4,435	—	—	—	4,435
Other comprehensive income, net of tax	—	—	—	—	—	—	—	69,467	—	69,467
Net income	—	—	—	—	—	—	755,140	—	—	755,140
Balance at December 31, 2001	<u>—</u>	<u>—</u>	<u>—</u>	<u>317,645,868</u>	<u>1,209,278</u>	<u>3,776,492</u>	<u>616,848</u>	<u>210,944</u>	<u>(1,038)</u>	<u>5,812,524</u>

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

KOOKMIN BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,			
	1999	2000 Korean Won (in millions)	2001	2001 US Dollars (Note 1) (in thousands)
Cash flows from operating activities:				
Net income	480,655	927,548	991,876	755,140
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for loan losses	1,010,400	261,929	1,264,000	962,314
Provision for guarantees and acceptances . . .	4,182	14,094	(9,153)	(6,968)
Depreciation and amortization	115,727	118,194	178,965	136,250
Accretion of discounts on long-term debt	458,193	165,317	115,332	87,805
Net loss on valuation of trading securities . . .	62,210	42,816	1,300	990
Net (gain) loss on valuation of derivatives . . .	(38,044)	215,806	27,679	21,073
Net gain on sales of available-for-sale securities	(128,740)	(134,696)	(162,261)	(123,533)
Impairment loss on available-for-sale securities	121,379	93,310	91,433	69,610
Net gain on valuation using equity method . . .	—	(7)	(1,742)	(1,326)
Impairment loss on held-to-maturity securities	28,559	24,203	22,635	17,233
Net gain on sales of loans	(25,497)	(4,505)	(1,317)	(1,003)
Net (gain) loss on disposal of premises and equipment	(13,536)	10,636	5,199	3,958
Net loss on sale of subsidiaries	41,241	—	—	—
Extraordinary gain on extinguishment of long- term debt	—	(13,323)	(58,539)	(44,567)
Unrealized foreign exchange gain	(39,721)	(17,699)	(16,915)	(12,878)
Stock options issued	—	148	5,307	4,040
Beneficial conversion feature	55,722	—	—	—
Minority interest in net income of consolidated subsidiaries	6,275	80,770	84,224	64,122
Cumulative effect of accounting change	—	—	13,337	10,154
Net change in:				
Trading assets	24,033	860,146	766,794	583,779
Accrued interest and dividend receivable	430,219	(17,575)	370,469	282,047
Other assets	847,038	437,177	916,017	697,386
Trading liabilities	(328,232)	(166,583)	(685,592)	(521,958)
Accrued interest payable	(37,755)	206,298	(328,828)	(250,345)
Other liabilities	(660,185)	597,540	(680,367)	(517,979)
Net cash provided by operating activities	<u>2,414,123</u>	<u>3,701,544</u>	<u>2,909,853</u>	<u>2,215,344</u>

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

KOOKMIN BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	For the years ended December 31,			
	1999	2000 Korean Won (in millions)	2001	2001 US Dollars (Note 1) (in thousands)
Cash flows from investing activities:				
Net change in restricted cash	(81,655)	(833,707)	(2,264,205)	(1,723,796)
Net change in interest-bearing deposits in other banks	118,060	(955,820)	1,308,625	996,289
Net change in call loans and securities purchased under resale agreements	702,176	(2,113,970)	1,566,193	1,192,381
Proceeds from sales of available-for-sale securities	4,236,166	6,191,309	9,098,093	6,926,603
Purchases of available-for-sale securities	(6,495,892)	(5,974,275)	(10,071,318)	(7,667,543)
Proceeds from maturities of held-to-maturity securities	6,114,071	4,769,262	5,734,203	4,365,590
Purchases of held-to-maturity securities	(2,820,922)	(6,016,810)	(4,599,485)	(3,501,702)
Loan originations and principal collections, net	(4,177,165)	(13,582,446)	(10,917,233)	(8,311,558)
Proceeds from sales of loans	26,297	8,001	6,506	4,953
Payments for purchases of loans	—	(1,325,092)	(1,620,353)	(1,233,615)
Payments for purchases of premises and equipment	(131,549)	(178,510)	(411,621)	(313,377)
Proceeds from sales of premises and equipment	54,546	40,552	27,223	20,726
Payments for expenses in relation to acquisition	—	—	(25,834)	(19,668)
Cash inflow from acquisition	—	—	1,122,743	854,772
Net change in security deposits	85,579	(3,006)	(6,371)	(4,850)
Net cash used in investing activities	<u>(2,370,288)</u>	<u>(19,974,512)</u>	<u>(11,052,834)</u>	<u>(8,414,795)</u>
Cash flows from financing activities:				
Net increase (decrease) in noninterest bearing deposits	416,267	(676,717)	862,435	656,593
Net increase in interest bearing deposits	5,143,987	14,121,775	6,092,689	4,638,514
Net increase (decrease) in call money	549,257	(751,793)	1,687,984	1,285,104
Net increase in secured borrowings	422,888	1,045,103	2,546,814	1,938,952
Net increase in other borrowed funds	400,969	1,552,297	1,299,249	989,150
Proceeds from issuance of long-term debt	2,687,345	7,924,112	8,302,277	6,320,729
Repayment of long-term debt	(9,889,013)	(7,578,171)	(10,989,528)	(8,366,599)
Proceeds from common stock issuance	735,187	—	—	—
Proceeds from common stock issuance by subsidiaries	2,351	220,439	55	42
Cash dividends paid to minority stockholders by subsidiaries	—	(653)	(13,118)	(9,987)
Purchases of additional shares of subsidiaries	(16,561)	—	—	—
Purchases of treasury stock by subsidiaries	(1,809)	—	(2,684)	(2,043)
Proceeds from sales of treasury stock	260	—	—	—
Cash dividends paid on common stocks	(47,251)	(14,937)	(149,409)	(113,749)
Redemption of preferred stocks	—	(40,000)	(160,000)	(121,812)
Proceeds from stock options exercised	—	—	50	38
Other	—	322	(121)	(92)
Net cash provided by financing activities	<u>403,877</u>	<u>15,801,777</u>	<u>9,476,693</u>	<u>7,214,840</u>

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

KOOKMIN BANK AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)

	For the years ended December 31,			
	1999	2000 Korean Won (in millions)	2001	2001 US Dollars (Note 1) (in thousands)
Effect of exchange rate changes on cash	(15,653)	12,161	5,507	4,193
Net increase (decrease) in cash and cash equivalents	432,059	(459,030)	1,339,219	1,019,582
Cash and cash equivalents, beginning of year	<u>1,728,442</u>	<u>2,160,501</u>	<u>1,701,471</u>	<u>1,295,370</u>
Cash and cash equivalents, end of year	<u>2,160,501</u>	<u>1,701,471</u>	<u>3,040,690</u>	<u>2,314,952</u>
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	4,535,762	4,433,602	5,689,363	4,331,453
Cash paid during the year for income taxes	181,301	122,089	556,040	423,327
Supplemental schedule of non cash investing and financing activities:				
Acquisitions (Note 3)				
Fair value of net assets acquired	—	—	2,945,360	2,242,375
Cash acquired	—	—	1,122,743	854,772
Loans repurchased from Korea Asset Management Corporation in exchange for held-to-maturity securities	12,306	23,840	11,647	8,867
Securities and other investments received in connection with loan restructuring	95,672	72,908	643,096	489,604
Decrease in cumulative translation adjustments, net of tax	(3,484)	(14,414)	29,677	22,594
Increase (decrease) in unrealized (losses) gains on available-for-sale securities, net of tax	(245,393)	186,241	120,922	92,061

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

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. General Information and Summary of Significant Accounting Policies

Kookmin Bank (also referred to as the “Bank”) was formed to facilitate the merger of the former Kookmin Bank and H&CB, which became effective November 1, 2001. The merger was effected through an exchange of shares with the stockholders of the former Kookmin Bank receiving 1 share of Kookmin Bank common stock for each 1.688346 shares of former Kookmin Bank common stock exchanged, and the stockholders of H&CB receiving 1 share of Kookmin Bank common stock for each share of H&CB exchanged. The merger was accounted for using the purchase method of accounting for business combinations, with Kookmin Bank being the accounting acquirer. The consolidated financial statements of Kookmin Bank prior to November 1, 2001 reflect the historical financial results of operations and financial position of the former Kookmin Bank. Accordingly, all per share and share amounts presented prior to November 1, 2001 have been adjusted to reflect the share exchange ratio of 1:1.688346.

The Bank conducts its operations in accordance with the provisions of the *General Banking Act of Korea*, including its activities in the commercial banking business. The Bank is also engaged in the trust business according to the *Trust Business Act* and in the credit card business under the *Specialized Credit Financial Business Act* and other related laws. The Bank operated through 1,125 domestic branches and three overseas branches as of December 31, 2001.

At December 31, 2001, the Korean government and foreign investors owned 9.64% and 71.16%, respectively, of the outstanding common shares of the Bank.

Risk and uncertainties

The Asian financial crisis that began in 1997 adversely affected the Korean economy as well as other economies in the Asia Pacific region. Among other effects, the Asian financial crisis precipitated economic contractions, a reduction in the availability of credit, increased interest rates and inflation, adverse fluctuations in currency exchange rates, growth in the level of bankruptcies, increased unemployment and labor unrest. Such conditions have had a significant adverse effect on the operations of the Bank. Any worsening of the Korean economy could exacerbate these effects.

Although economic conditions in Korea may have improved and some of the trends and conditions noted above may have reversed, the Bank and its customers may continue to be affected for the foreseeable future by some of the adverse economic conditions in Korea and in the Asia Pacific region. Should economic indicators in Korea perform unfavorably in the short term and other external factors become negative, such as the degree of success of government-sponsored or brokered restructuring of large troubled companies, the degree of success of the restructuring of the Korean financial sector, or an increase in personal bankruptcies, then the Bank could be required to make adjustments to the carrying amount of its loans and investments in amounts that could be material to the consolidated financial statements.

Basis of presentation

The accounting and reporting policies of the Bank conform with accounting principles generally accepted in the United States of America (“US GAAP”). The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The policies, which are followed by the Bank to determine its financial position, results of operations and cash flows, are summarized below.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Principles of consolidation

The consolidated financial statements of the Bank include the accounts of Kookmin Bank and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Any gain or loss resulting from changes in equity of consolidated investees that change the Bank's relative ownership interest in such investees is recorded in "Additional paid-in capital".

Foreign currency translation

Foreign currency translation represents the effects of translating into Korean Won, the financial position and results of operations of entities located outside of Korea that have a functional currency other than Korean Won, the Bank's functional and reporting currency. Foreign currency translation is recorded as a component of "Accumulated other comprehensive income" within stockholders' equity, net of income tax effects. Assets and liabilities are translated into Korean Won at period-end exchange rates, and income and expense items are translated using average rates for the relevant periods.

Foreign currency transactions executed by domestic Korean entities are accounted for at the exchange rates prevailing on the related transactions dates. Assets and liabilities denominated in foreign currencies are remeasured using period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the remeasurement of assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income except for gains and losses arising from the translation of available-for-sale securities which are recorded as a component of "Accumulated other comprehensive income".

Cash and cash equivalents

Cash and cash equivalents are comprised of cash on hand, cash items in the process of collection and amounts due from banks and other financial institutions and the Bank of Korea. All such amounts have an original maturity of 90 days or less.

Resale and repurchase agreements

The Bank enters into short-term purchases of securities under agreements to resell ("resale agreements") and sales of securities under agreements to repurchase ("repurchase agreements") of substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when control over the related securities has not been surrendered by the transferor. When control over the related securities has been surrendered by the transferor, the Bank accounts for its resale agreements as purchases of securities with related off-balance sheet forward commitments to resell and accounts for its repurchase agreements as sales of securities with related off-balance sheet forward commitments to repurchase. It is the Bank's policy to take possession of securities under agreements to resell. The Bank minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and by monitoring collateral value and requiring the counterparty to deposit additional collateral with the Bank when deemed necessary.

The amount advanced under resale agreements accounted for as secured lending transactions and the amounts borrowed under repurchase agreements accounted for as secured borrowing transactions are carried on the balance sheet at the amount advanced or borrowed. Interest earned on resale agreements and interest incurred on repurchase agreements is reported as interest income and interest expense, respectively.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Trading assets and liabilities, including derivatives

Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading liabilities include “short” positions, which are obligations to deliver securities not yet purchased. Trading positions are carried at fair value and recorded on a trade date basis. The Bank recognizes changes in the fair value of trading positions as they occur in net trading revenue. Trading assets and liabilities also include derivatives and foreign exchange contracts used for trading purposes and those used for other than trading purposes that do not qualify for hedge accounting, which the Bank carries at fair value. The Bank recognizes changes in the fair value of trading derivatives and foreign exchange contracts as they occur in net trading revenue. The fair value of trading securities, derivative financial instruments and foreign exchange contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing models, quoted prices of instruments with similar characteristics or discounted cash flows or the net asset value of the investee.

Derivatives used for hedging purposes

The Bank uses various derivative instruments outside of its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to hedge against the effects of fluctuations in interest rates or foreign exchange rates.

On January 1, 2001, the Bank adopted Statement of Financial Accounting Standards (“SFAS”) No. 133, “Accounting for Derivative Instruments and Hedging Activities” (“SFAS No. 133”), which establishes accounting and reporting standards for derivative instruments, as well as certain derivative instruments embedded in other contracts, that are employed to manage risk outside of the Bank’s trading activities. The adoption of SFAS No. 133 on January 1, 2001 resulted in an after-tax reduction to net income of 13,337 million Won and an after-tax increase in other comprehensive income of 5,140 million Won, relating principally to the reclassification of derivatives which no longer qualified as hedges to trading.

Derivatives used as hedges must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively.

All derivatives, whether designated for hedging relationships or not, are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the income statement when the hedged item affects earnings. The ineffective portion of cash flow hedges is immediately recognized in earnings.

None of the Bank’s derivatives qualify as hedges pursuant to SFAS No. 133. Thus, in 2001 any changes in fair values related to derivatives were immediately reflected in earnings.

Prior to the adoption of SFAS No. 133, interest rate swaps which qualified as hedges were accounted for on an accrual basis with accrued interest recognized as adjustments to interest income

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

or expense on the related assets or liabilities. Derivative instruments used to hedge or modify the interest rate characteristics of debt securities or to manage foreign exchange risk of securities classified as available-for-sale were carried at fair value with unrealized gains or losses deferred as a component of “accumulated other comprehensive income (loss), net of tax.” Instruments designated as hedges were required to be linked to specific assets or liabilities and effective throughout the hedge period. If derivative instruments failed to qualify as hedges, the instruments were recorded at market value with changes in market value reflected in net trading revenues.

Available-for-sale securities

Securities are classified as available-for-sale when management intends to hold the securities for an indeterminate period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Premiums and discounts for foreign debt securities are amortized or accreted, respectively, using the straight-line method. The amount of interest recognized using this method is not materially different than the interest that would have been recognized if the effective interest rate method was used. Premiums and discounts for domestic debt securities are amortized or accreted, respectively, using the interest rate method. Realized gains and losses on the sales of securities are determined using the specific identification method for debt securities and the moving average method for equity securities. Available-for-sale securities are reported at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in “Accumulated other comprehensive income (loss), net of taxes.” Declines in fair value of individual available-for-sale securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value. Factors considered in determining whether such declines in value are other than temporary include the length of time and extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, the Bank’s intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the state of the Korean economy (domestic securities only). The related write-downs are included in earnings under “Net gain on investments”.

Held-to-maturity securities

Securities for which the Bank has the positive ability and intent to hold until maturity are recorded at amortized cost and adjusted for accretion/amortization of discounts and premiums, respectively. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings under “Net gain on investments”.

Equity securities without readily determinable fair values

The Bank holds certain equity securities that do not have readily determinable fair values. Those equity securities are recorded as “Other assets” in the balance sheet and are accounted for at cost, with any other-than-temporary impairment recorded under “Net gain on investments”.

Loans

Loans are reported at the principal amount outstanding, adjusted for the allowance for loan losses, unearned income, loan fees and loan origination costs. Deferred net fees and costs are

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

recognized in interest income over the loan term as an adjustment of yield on the outstanding loan balance. Interest on loans is accrued at the effective rate and credited to income based on the principal amount outstanding.

The Bank generally ceases the accrual of interest when principal or interest payments become one day past due. Any unpaid interest previously accrued on such loans is reversed from income, and thereafter interest is recognized only to the extent payments are received. In applying payments on delinquent loans, payments are applied first to the delinquent interest, normal interest, and then to the loan balance until it is paid in full. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current.

Securities received by the Bank involving loans that are restructured or settled are recorded at the fair value of the security at the date of restructuring or settlement. Any difference between the security's fair value and the net carrying amount of the loan is recorded as a charge-off or recovery, as appropriate, on the loan through the allowance for loan losses.

The Bank provides equipment financing to its customers through a variety of lease arrangements. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property, less unearned income. Unearned income is recognized using the effective interest method.

Allowance for loan losses

The Bank's allowance for loan losses is based upon management's continuing review and evaluation of the loan portfolio and is management's best estimate of probable losses which have been incurred as of the balance sheet date. The level of the allowance is based on an evaluation of the risk characteristics of the loan portfolio and considers factors such as past loss experience and the financial condition of the borrower. The allowance for loan losses is charged against income in the form of a provision for loan losses. Adjustments to the allowance due to changes in measurement of impaired loans are recognized through the provision for loan losses. Loan losses, net of recoveries, are charged directly to the allowance.

A commercial loan is considered impaired when, after consideration of current information and events, it is probable that the Bank will be unable to collect all amounts, including principal and interest, according to the contractual terms of the loan. We consider the following types of loans to be impaired:

- Loans classified as "substandard" or below according to the Financial Supervisory Commission's asset classification guidelines;
- Loans that are 30 days or more past due;
- Loans to companies that have received a warning from the Korean Federation of Banks, indicating that the company has exhibited difficulties in making timely payments of principal and interest.
- Loans which are "troubled debt restructurings" under US GAAP.

Once a loan is identified as impaired, management measures the loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the resulting value is less than the book value of the loan, a specific

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

allowance is established. Any amounts deemed uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Impairment criteria are applied to the loan portfolio, exclusive of leases and smaller balance homogeneous loans such as residential mortgage, consumer loans and credit cards, which are evaluated collectively for impairment.

The allowance for loan losses related to commercial loans that are not deemed to be impaired is established for such loans in the aggregate based upon the Bank's historical loss experience.

The allowance for loan losses related to consumer loans is established based on historical loss experience delinquency and charge-off information. Unsecured loan amounts greater than 180 days past due are charged-off.

The allowance for loan losses related to leases is established based on historical loss experience. The amount deemed uncollectable on financing leases is charged off when greater than one year past due.

Allowance for guarantees and acceptances

The Bank analyzes its off-balance sheet legally binding commitments for possible losses associated with such commitments. The Bank reviews the ability of the counterparty of the underlying credit commitment to perform under the proposed commitment. If it is determined that a loss is probable and estimable, the Bank will record a liability for other credit exposures in a similar manner as if a loan was granted under the terms of the commitment. The allowance for guarantees and acceptances is reflected in "Other liabilities".

Deferred loan origination fees and costs

The Bank recognizes certain employee and other costs associated with originating loans as a yield adjustment over the life of the loan, net of any related fees received. The majority of the deferred fee income relates to annual membership fees related to the Bank's credit card business. The Bank does not have any other significant fee income related to its lending activities. The deferred loan origination costs relate to direct loan origination activities performed by the Bank which include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. All other lending-related costs, including costs related to activities performed by the Bank for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision and administration, are expensed as incurred.

Foreclosed assets

Assets acquired through or in lieu of loan foreclosures are initially recorded at fair value at the date of acquisition. After acquisition, such assets are carried at the lower of their carrying amounts or fair values as determined by their estimated public auction price, net of selling costs.

Secured borrowings

Transfers of loans and securities related to certain securitizations, in which control over the loans has not been surrendered, are accounted for as collateralized borrowings. The liability for funds received under the related loan sale agreements are included in "Secured borrowings".

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Collateral

The Bank pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitization which are retained on the balance sheet, as the Bank retains control of the assets transferred. The Bank also pledges securities as collateral, primarily for certain deposit transactions and borrowings structured as a transfer of securities through asset securitisation. The Bank retains control of the securities and retains them on the balance sheet. Securities pledged against deposits cannot be sold or re-pledged by the Bank. However, the Bank has the right to substitute the collateral provided that this is not to the detriment of the depositor.

Premises and equipment

Premises, equipment and furniture and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation of buildings is computed on a straight-line basis over the estimated useful lives of the assets. Depreciation of equipment and furniture and operating lease assets is computed on a declining balance basis over the useful lives of the assets, or the term of the lease, if shorter, in the case of leasehold improvements. Gains or losses on disposals of premises and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

From October 31, 2001 depreciation for all leasehold improvements is computed on a declining balance basis over the shorter of the useful lives of the asset or the term of the related lease. Prior to November 1, 2001, depreciation on leasehold improvements was computed on a straight-line basis. The change in accounting principle was made to reflect the durability of leasehold improvements and a better matching of costs. The change to declining balance basis did not have a material impact on the Bank financial position, results of operations or cash flows.

The Bank capitalizes certain direct costs related to developing software for internal use, and amortizes such costs on a straight-line basis once the software is available for use.

The estimated useful lives of premises and equipment are as follows:

Buildings	40 years
Equipment and furniture	3-6 years
Capitalized software	4-5 years
Leasehold improvements	1-5 years
Operating lease assets	4-5 years

Goodwill and other intangible assets

Goodwill is recorded at fair value at the date of acquisition and is amortized over the estimated periods to be benefited, generally ranging from 5 to 15 years using the straight-line method. Other identifiable intangible assets, including core deposit and credit card relationship intangibles, are recorded at fair value at the date of acquisition and are amortized over the estimated periods to be benefited, generally ranging from 6 to 8 years using an accelerated basis. An impairment review is performed periodically on these assets and any impaired amounts are written off.

The recoverability of goodwill and other intangibles is evaluated if facts and circumstances indicate a possible impairment. Such facts and circumstances include significant or sustained declines in revenues or earnings and material adverse changes in the economic climate. If this review indicates that goodwill and other intangibles will not be recoverable, based on estimated undiscounted cash flow projections, impairment will be measured by comparing the carrying values of

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

goodwill and other intangibles to their fair values, as determined based on discounted cash flows or appraisals. See “Recent Accounting Pronouncements” (Note 2) for information related to changes in accounting for goodwill and other intangibles.

Interest expense

Interest expense is recognized on an accrual basis. For deposits where a portion of the interest payments are linked to the Bank’s stock price, interest is recognized based on the price of the Bank’s stock at the end of the period.

Stock based compensation

The Bank accounts for its employee stock-based compensation plans using the intrinsic-value based method in accordance with Accounting Principles Board Opinions No. 25, “Accounting for Stock Options Issued to Employees” and related interpretations. Compensation expense is calculated by multiplying the number of shares under option by the difference between the quoted market price of the stock at the measurement date and the exercise price the employee is required to pay. The measurement date is determined when the number of shares and the exercise prices are fixed. Compensation expense is recognized over the vesting period in which an employee performs the services related to the option awards.

Trust fees and compensation to the trust accounts

The Bank receives fees for its management of trust assets, which are recognized when earned. The Bank is also entitled to receive performance-based fees for certain trust accounts. These fees, if earned, are recognized at the end of the performance period.

In addition, the Bank is liable to compensate trust account holders for losses incurred in certain trust accounts subject to minimum return and principal guarantees. Such losses are settled at the end of each applicable year.

Other fees and commission income

Other fees and commissions primarily consist of fees from merchants, deposit accounts, mortgage servicing, loan commitments, commissions on factored receivables and credit card interchange income. Such fees are recognized when earned.

Income taxes

Deferred income tax is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax benefit or expense is then recognized for the change in deferred tax assets or liabilities between periods. Currently enacted tax rates are used to determine deferred tax amounts.

Deferred tax assets, including the carry-forward of unused tax losses, are recognized to the extent it is more likely than not that the deferred tax assets will be realized. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Venture capital activities

Certain of the Bank's subsidiaries engage exclusively in venture capital activities. Venture capital investments are carried on the balance sheet at fair value in "Other assets," with net changes in fair value recognized in "Noninterest income" or "Noninterest expense". The fair values of publicly-traded securities held by these subsidiaries are generally based on quoted market prices. Securities that are held by these subsidiaries that are not publicly traded originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date management estimates fair value based on investee transactions with unaffiliated parties, or based on management's review of the investee's financial results and condition.

United States dollar amounts

The Bank operates primarily in Korea and its official accounting records are maintained in Korean Won. The US dollar amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in US dollars at the rate of ₩1,313.5 : US\$1, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2001. The US dollar amounts are unaudited and are not presented in accordance with generally accepted accounting principles in either Korea or the United States of America, and should not be construed as a representation that the Korean Won amounts shown could be converted, realized or settled in US dollars at this or any other rate.

Reclassification

Certain reclassifications have been made in the 2000 and 1999 consolidated financial statements to conform to the 2001 presentation for comparability purposes.

2. Recent Accounting Pronouncements

SFAS No. 141 "Business Combinations"

In June 2001, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141, "Business Combinations" which establishes financial accounting and reporting for all business combinations. SFAS No. 141 requires all business combinations be accounted for by a single method, the purchase method and that intangible assets be recognized apart from goodwill if they meet certain criteria. The statement also requires the disclosure of the primary reasons for the business combination and the allocation of the purchase price to the assets acquired and liabilities assumed by major balance sheet caption. The statement is effective for all business combinations initiated after June 30, 2001. The Bank adopted the provisions of SFAS No. 141, as required, in accounting for its merger with H&CB (see Note 3).

SFAS No. 142 "Goodwill and Other Intangible Assets"

In June 2001, the FASB issued SFAS No. 142, "Goodwill and Other Intangible Assets" which primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. The statement became effective for the Bank on January 1, 2002. SFAS No. 142 requires that goodwill be recorded at the reporting unit level, which are defined as an operating segment or one level below. SFAS No. 142 prohibits the amortization of goodwill but requires that it be tested for impairment at least annually at the reporting unit level. The impairment test is to be performed in two phases. The first step of the goodwill impairment test, used to identify potential impairment,

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of a reporting unit exceeds its fair value an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Management does not anticipate that an impairment charge will be recorded as a result of the adoption of SFAS No. 142. The net carrying amount of goodwill as of December 31, 2001 was 162,206 million Won. The Bank will cease amortizing goodwill effective January 1, 2002. For the year ended December 31, 2001, goodwill amortization expense was 13,518 million Won.

SFAS No. 144 “Accounting for the Impairment or Disposal of Long-Lived Assets”

In October 2001, the FASB issued SFAS No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets.”, which supercedes SFAS No. 121 “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of”. The new standard maintains the previous accounting for the impairment or disposal of long-lived assets, but also establishes more restrictive criteria that have to be met to classify such an asset as “held for sale.” SFAS No. 144 also increases the range of dispositions that qualify for reporting as discontinued operations, and changes the manner in which expected future operating losses from such operations are to be reported. This standard is effective for fiscal years beginning after December 15, 2001. The Bank is in the process of evaluating the potential impact of adopting SFAS No. 144 on the results of its operations.

3. Merger with H&CB

Effective November 1, 2001, the former Kookmin Bank merged with H&CB to realize the anticipated synergies, growth opportunities and cost savings from combining the operations of the two banks. The merger was facilitated through the formation of Kookmin Bank into which the former Kookmin Bank and H&CB were merged. The merger was effected through an exchange of shares with the stockholders of the former Kookmin Bank receiving 1 share of Kookmin Bank common stock for each 1.688346 shares of former Kookmin Bank common stock exchanged, and the stockholders of H&CB receiving 1 share of Kookmin Bank common stock for each share of H&CB exchanged. The merger was accounted for using the purchase method of accounting for business combinations, with Kookmin Bank being the accounting acquirer. The consolidated financial statements of Kookmin Bank prior to November 1, 2001 reflect the historical financial results of operations and financial position of the former Kookmin Bank. Accordingly, all per share and share amounts presented prior to November 1, 2001 have been adjusted to reflect the share exchange ratio of 1:1.688346. After the merger, the stockholders of the former Kookmin Bank owned approximately 60%, and the former stockholders of H&CB owned approximately 40% of Kookmin Bank, including the effects of the conversion of both banks’ convertible bonds into common stock prior to the completion of the merger. The consolidated financial statements of the Bank for the year ended December 31, 2001 include the operations of H&CB from November 1, 2001.

The assets and liabilities of H&CB were recorded at fair value, with the excess of the fair value of the net assets acquired over the purchase consideration recorded as negative goodwill. In accordance with SFAS No. 141, the negative goodwill was allocated to the identifiable intangible assets and fixed assets on a pro rata basis.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition (in millions of Won):

Cash and cash equivalents	1,122,743
Deposits	880,238
Call loans	1,075,729
Trading assets	4,322,933
Securities	7,799,062
Loans, net of allowance for loan losses	49,442,529
Premises and equipment, net	1,085,854
Other assets	1,725,532
Intangible assets:	
Core deposit intangible asset	670,483
Credit card relationship intangible asset	222,254
Total assets	<u>68,347,357</u>
Due to depositors	51,861,465
Borrowings and debentures	9,379,486
Other liabilities	3,605,219
Minority interest at book value	11,681
Total liabilities	<u>64,857,851</u>
Fair value of net assets of H&CB	<u>3,489,506</u>

The allocation of the purchase consideration is as follows (in millions of Won, except share data):

Market value of consideration	2,897,349 ^(a)
Acquisition costs	48,011
Total purchase price	<u>2,945,360</u>

Allocation of Purchase Price:

Fair value of H&CB net assets	3,489,506
Negative goodwill	(544,146)
Total purchase price	<u>2,945,360</u>

Allocation of Negative Goodwill:

Reduction in premises and equipment	(431,224)
Reduction in core deposit intangible asset	(266,710)
Reduction in credit card relationship intangible asset	(88,410)
Increase in deferred tax asset	242,198
	<u>(544,146)</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Core deposit intangible reflects the estimated fair value of the acquired demand deposits and savings accounts which the Bank can expect to maintain for an extended period of time because of generally stable customer relationships. The core deposit intangible is amortized over its estimated useful life in proportion to the estimated run-off of depositors on an accelerated basis. The estimated weighted average life of the core deposit intangible is approximately eight years. The fair value of this asset was based principally upon the estimates of (i) the funding benefits that these deposits provide relative to our alternative funding sources and (ii) the projected run-off of the related customer accounts.

Credit card relationship intangible reflects the estimated fair value of the credit card relationships acquired from H&CB from which Kookmin Bank expects to derive future benefits over the estimated life of such relationships. The customer relationship intangible is amortized over its estimated useful life of six years on an accelerated basis. The fair value of this asset was based principally upon the estimates of (i) the profitability of the acquired accounts and (ii) the projected run-off of the acquired accounts.

- (a) Market value of consideration has been calculated by reference to the number of the Bank's shares to be issued to H&CB's stockholders (based on an exchange ratio of 1:1). The number of H&CB shares outstanding at October 31, 2001 were multiplied by the average closing stock price of Kookmin Bank on the Korean Stock Exchange two days before and after the merger agreement date of April 23, 2001, times the exchange ratio for Kookmin Bank stock as follows:

H&CB common shares outstanding at October 31, 2001	119,922,229
Average Kookmin Bank stock price	14,310
Kookmin Bank share exchange ratio	1.688346
Total market value of consideration (in millions of Korean won)	2,897,349

The following unaudited pro forma consolidated summary of operations presents information of the Bank as if the transaction had occurred on January 1, 2000:

(expressed in millions of Won, except share data)	Year ended December 31,	
	2000	2001
	(unaudited)	
Total interest and dividend income	12,468,338	13,620,829
Net income before extraordinary gain and cumulative effect of accounting change	1,488,951	1,407,581
Net income	1,502,274	1,474,804
Basic earnings per share	4,739	4,652
Diluted earnings per share	4,241	4,168

These pro forma results are for illustrative purposes. They do not purport to be indicative of the results of operations which actually would have resulted had the merger occurred as of January 1, 2000 or the future results of operations of the merged entity.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

4. Transactions with Korea Asset Management Corporation

Prior to fiscal year 1999, the Bank sold certain non-performing loans to the Korean Asset Management Corporation (“KAMCO”). The sales agreements contain a put option under which KAMCO can obligate the Bank to repurchase the related loans. The put option has no expiration date. Loans for which KAMCO has a put option amounted to 19,871 million Won and 59,630 million Won at December 31, 2000 and 2001, respectively. Included in the balance at December 31, 2001 are loans obtained from the H&CB acquisition. At December 31, 2000 and 2001, the Bank recorded a liability of 5,437 million Won and 7,196 million Won, respectively, representing its estimated obligation to repurchase the loans under the put option.

5. Restricted Cash

The following table presents restricted cash as of December 31:

	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)	
Reserve deposits with the Bank of Korea	925,121	3,484,324
Deposits with insurance companies	396,075	678,500
Deposits with Hansol Mutual Savings & Finance	104,003	111,132
Other	<u>114,677</u>	<u>98,971</u>
Total restricted cash	<u>1,539,876</u>	<u>4,372,927</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Reserve deposits with the Bank of Korea (“BOK”) represent amounts required under the *General Banking Act* for payment of deposits. Deposits with insurance companies are restricted from being withdrawn prior to their maturities in 2002 and 2003. These deposits were placed with four Korean insurance companies which also manage the Bank’s severance benefit insurance plans.

Deposits with Hansol are restricted from being withdrawn prior to their maturity in 2004.

6. Call Loans and Securities Purchased under Resale Agreements

Call loans and securities purchased under agreements to resell, at their respective carrying values, consisted of the following at December 31:

	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)	
Call loans	991,208	1,372,301
Securities purchased under resale or similar arrangements	<u>1,500,000</u>	<u>640,000</u>
Total	<u><u>2,491,208</u></u>	<u><u>2,012,301</u></u>

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. Trading Assets and Liabilities

The following table presents trading assets and liabilities at December 31:

	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)	
Trading assets:		
Debt securities		
Korean Treasury and government agencies	1,755,662	1,229,629
Corporate	154,591	174,478
Financial institutions	537,015	910,090
Equity securities	<u>148,777</u>	<u>4,193,286</u>
Total debt and equity instruments	<u>2,596,045</u>	<u>6,507,483</u>
Foreign exchange spot contracts	1,523	2,514
Derivative instruments		
Exchange rate derivatives	448,873	253,977
Interest rate derivatives	56,492	83,085
Credit derivatives	582	3
Equity derivatives	<u>173</u>	<u>27,431</u>
Total derivative instruments and foreign exchange spot contracts	<u>507,643</u>	<u>367,010</u>
Total trading assets	<u><u>3,103,688</u></u>	<u><u>6,874,493</u></u>
Trading liabilities:		
Foreign exchange spot contracts	2,420	3,486
Derivative instruments		
Exchange rate derivatives	653,506	202,283
Interest rate derivatives	61,787	80,606
Credit derivatives	<u>54</u>	<u>302</u>
Total trading liabilities	<u><u>717,767</u></u>	<u><u>286,677</u></u>

8. Net Trading Revenue

The following table presents net trading related revenue for the years ended December 31:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)		
Debt securities	142,275	147,893	31,539
Equity securities	115,624	(208,431)	4,318
Foreign exchange contracts	142,306	151,742	105,558
Derivative instruments	<u>106,958</u>	<u>(77,904)</u>	<u>(16,928)</u>
Total net trading revenue	<u><u>507,163</u></u>	<u><u>13,300</u></u>	<u><u>124,487</u></u>

For the years ended December 31, 1999, 2000 and 2001, net unrealized holding losses on trading securities of 62,210 million Won, 42,816 million Won and 1,300 million Won, respectively, were included in net trading revenue.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

9. Securities

At December 31, 2001, the amortized cost and estimated fair value of the Bank's available-for-sale securities and held-to-maturity securities and the related unrealized gains and losses were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair Value</u>
	(all amounts expressed in millions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury and government agencies	3,615,390	78,239	18,200	3,675,429
Corporate	2,581,926	68,455	30,932	2,619,449
Financial institutions	2,150,052	43,597	3,688	2,189,961
Foreign governments	25,179	4,162	239	29,102
Mortgage-backed securities and asset-backed securities	257,459	2,407	2,310	257,556
Equity securities	<u>3,256,390</u>	<u>306,308</u>	<u>10,230</u>	<u>3,552,468</u>
Total available-for-sale securities	<u>11,886,396</u>	<u>503,168</u>	<u>65,599</u>	<u>12,323,965</u>
Held-to-maturity securities:				
Debt securities				
Korean Treasury and government agencies	8,915,351	263,146	15,942	9,162,555
Corporate	654,602	15,763	185	670,180
Financial institutions	1,711,454	9,810	1,479	1,719,785
Foreign governments	52,793	636	1,717	51,712
Mortgage-backed securities and asset-backed securities	1,890,467	21,484	1,565	1,910,386
Other	5	—	—	5
Total held-to-maturity securities	<u>13,224,672</u>	<u>310,839</u>	<u>20,888</u>	<u>13,514,623</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

At December 31, 2000, the amortized cost and estimated fair value of the Bank's available-for-sale securities and held-to-maturity securities and the related unrealized gains and losses were as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair Value</u>
	<small>(all amounts expressed in millions of Won)</small>			
Available-for-sale securities:				
Debt securities				
Korean Treasury and government agencies	3,418,220	121,570	3,942	3,535,848
Corporate	1,265,533	107,296	9,691	1,363,138
Financial institutions	1,516,305	37,868	5,133	1,549,040
Foreign governments	26,291	6,219	26	32,484
Mortgage-backed securities and asset-backed securities	154,802	2,769	—	157,571
Other	80,188	544	—	80,732
Equity securities	<u>1,529,781</u>	<u>49,015</u>	<u>16,215</u>	<u>1,562,581</u>
Total available-for-sale securities	<u>7,991,120</u>	<u>325,281</u>	<u>35,007</u>	<u>8,281,394</u>
Held-to-maturity securities:				
Debt securities				
Korean Treasury and government agencies	4,855,928	259,860	—	5,115,788
Corporate	528,814	15,854	1,075	543,593
Financial institutions	2,753,838	11,907	1,684	2,764,061
Foreign governments	99,640	2,512	1,517	100,635
Mortgage-backed securities and asset-backed securities	765,739	10,414	—	776,153
Other	<u>522</u>	<u>—</u>	<u>—</u>	<u>522</u>
Total held-to-maturity securities	<u>9,004,481</u>	<u>300,547</u>	<u>4,276</u>	<u>9,300,752</u>

The BOK and the Korea Development Bank (“KDB”) are both financial institutions owned and controlled by the Korean government. The amounts listed above for the fair value of available-for-sale debt securities from financial institutions include 855,193 million Won and 1,872,258 million Won as of December 31, 2000 and 2001, respectively, that are related to BOK and KDB. The amounts listed above for the amortized cost of held-to-maturity debt securities from financial institutions include 1,121,236 million Won and 1,391,548 million Won as of December 31, 2000 and 2001, respectively, that are related to BOK and KDB.

Gross unrealized gains and losses on swaps related to available-for-sale securities were 1,045 million Won and 28,351 million Won, respectively, at December 31, 2000. There were no swaps related to available-for-sale securities at December 31, 2001.

For the years ended December 31, 1999, 2000 and 2001, the Bank recognized impairment losses on available-for-sale securities of 121,379 million Won, 93,310 million Won and 91,433 million won, respectively, where decreases in value were deemed to be other-than-temporary.

For the years ended December 31, 1999, 2000 and 2001, the Bank recognized impairment losses on held-to-maturity securities of 28,559 million Won, 24,203 million Won and 22,635 million Won, respectively, where decreases in value were deemed to be other-than-temporary.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Any deterioration in Korean economic conditions, or in specific situations of the counter party to the security, could adversely affect the fair value of securities held by the Bank.

For the years ended December 31, 1999, 2000 and 2001, proceeds from sales of available-for-sale securities amounted to 4,236,166 million Won, 6,191,309 million Won and 9,098,093 million Won, respectively. Gross realized gains amounted to 148,248 million Won, 186,679 million Won and 212,342 million Won for the years ended December 31, 1999, 2000 and 2001, respectively. Gross realized losses amounted to 19,508 million Won, 51,983 million Won and 50,081 million Won for the years ended December 31, 1999, 2000 and 2001, respectively.

The amortized cost and estimated fair value of the Bank's available-for-sale debt securities and held-to-maturity securities at December 31, 2001 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale debt securities		Held-to-maturity securities	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(all amounts expressed in millions of Won)			
Due in one year or less	2,645,557	2,662,001	3,835,252	3,858,355
Due after one year through five years	5,764,139	5,860,646	9,214,084	9,473,531
Due after five years through ten years	166,772	189,828	163,448	166,996
Due after ten years	22,761	26,783	1,516	2,763
Securities not due at a single maturity date	30,777	32,239	10,372	12,978
Total	<u>8,630,006</u>	<u>8,771,497</u>	<u>13,224,672</u>	<u>13,514,623</u>

The Bond Market Stabilization Fund (the "Fund") was established by forty Korean financial institutions on September 21, 1999 at the request of the Korean government, to stabilize the market prices of debt securities and interest rates in Korea through open market purchases of debt securities. On March 27, 2000, the Korean Government elected to dissolve the Fund in advance of the scheduled maturity date of August 31, 2002.

On dissolution of the Fund, 26.6 trillion Won of the securities previously held by the Fund were sold to participants and the remaining portion of the securities were transferred to two trusts ("the Trusts"). The Bank owns the entire beneficial interest in the first trust ("Trust I"), while it owns a 8.45% of the beneficial interest in the second trust ("Trust II") with thirty-eight participating financial institutions. The securities transferred by the Fund to Trust I and Trust II had a fair value of 23,600 million Won and 273,400 million Won, respectively, as of the dissolution date.

As part of the dissolution agreement, the participating financial institutions agreed that any losses on investments can be sold back to the Trust based on the expected yield on such securities on the dissolution date. As a result, any losses experienced by the participants would be shared with the other participating financial institutions based on their participation percentage in the Trusts.

During 2001, under the approval of the Money Trust Committee, the Trusts repurchased Hyundai Engineering & Construction Co. securities which had a total fair value of 163,315 million Won as of December 31, 2001.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of December 31, 2001, the fair values of the assets of the Trust I and Trust II were approximately 19,981 million Won and 223,670 million Won, respectively. The dissolution agreement does not address commitments to purchase investments which exceed the assets of the Trusts. The Bank does not believe additional losses resulting from repurchase of securities would exceed the assets of the Trusts.

10. Securitization of non-performing loans

The Bank holds retained interests in securitized financial assets through investment in junior bonds. These bonds have estimated maturity life of 3-4 years.

The Bank determines the fair value of the junior bonds using the present value of future cash flows taking into consideration the priority of payments. The cash flows from the junior bonds represent the residual interest remaining in the special purpose vehicle after payment of senior bond interest and principal and payment of certain fees and expenses. The key economic assumptions used in estimating the fair value of retained interests as of December 31, 2001 are as follows:

	<u>2001</u>
Fair value retained interests	73,386
Weighted average life (in years)	1.72
Weighted average collection ratio	71.59%
Investment return percentage	5.30%
Weighted average asset cash flows discounted at	13.44%

The Bank, subsequent to the merger with H&CB, is a party to a servicing arrangement whereby the Bank will service and maintain the records for these loans. In exchange, the Bank will receive 0.5% of the outstanding securitized bond balance at the beginning of every quarter as quarterly servicing fees. The Bank received cash flows relating to servicing fees of 925 million Won from the special purpose vehicle during the two-month period ended December 31, 2001.

At December 31, 2001, the key economic assumptions and the sensitivity of the current fair value of residual cash flows to immediate 10% and 20% adverse changes in those assumptions are as follows:

	<u>10% Impact</u>	<u>20% Impact</u>
	<u>(all amounts expressed in millions of Won)</u>	
Estimated fair value of junior bond	60,049	43,360
Weighted average collection ratio	58.58%	42.30%
Investment return percentage	5.30%	5.30%
Weighted average asset cash flows discounted at	12.16%	12.02%

These sensitivities are hypothetical and should be used with caution. The changes in fair value based on a variation in assumptions may not be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumption; in reality, changes in one factor may result in changes in another, which might magnify or counteract the sensitivities.

Given the nature of these assumptions, it is at least reasonably possible that changes in actual results or future changes in assumptions could materially affect the short-term carrying value of the junior bonds and the related results of the Bank's operations.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

11. Loans

The composition of the loan portfolio as of December 31, 2000 and 2001 was as follows:

	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)	
Domestic		
Commercial:		
Commercial and industrial(1)	29,794,794	36,113,121
Construction loans	2,168,165	4,141,432
Other commercial(2)	1,216,256	1,668,338
Lease financing	592,466	568,175
Consumer:		
Mortgage and home equity	8,068,339	37,194,224
Credit cards	8,321,050	16,750,956
Other consumer(3)	8,150,969	23,312,017
Foreign		
Commercial:		
Commercial and industrial	1,084,690	1,146,098
Gross loans	59,396,729	120,894,361
Deferred origination costs	37,567	65,408
Less: Allowance for loan losses	(2,393,647)	(3,507,583)
Total loans, net	<u>57,040,649</u>	<u>117,452,186</u>

- (1) Commercial and industrial loans include 1,831,961 million Won and 333,538 million Won of loans to the Korean government and government related agencies as of December 31, 2000 and 2001, respectively.
- (2) Other commercial loans include bills bought in foreign currency and overdrafts.
- (3) Other consumer loans include personal overdrafts and loans with principal due at maturity.

During 2001 and 2000, the Bank received convertible debt securities and marketable equity securities having a fair market value of 153,019 million Won (2000: 10,772 million Won) and 490,077 million Won (2000: 62,136 million Won), respectively, through the restructuring of 26 (2000: 32) loans having an aggregate book value of 727,276 million Won (2000: 146,956 million Won). The Bank recognized aggregate charge-offs of 84,180 million Won (2000: 74,048 million Won) related to these transactions.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table sets forth information about the Bank's impaired loans as of December 31, 2000 and 2001. Impaired loans are those on which the Bank believes it is probable that it will not be able to collect all amounts due according to the contractual terms of the loan.

	2000	2001
	(all amounts expressed in millions of Won)	
Impaired loans with an allowance	4,879,926	4,772,323
Impaired loans without an allowance	646,840	833,114
Total impaired loans	5,526,766	5,605,437
Allowance for impaired loans	1,808,760	2,160,559
Average balance of impaired loans during the year	5,613,299	5,030,347
Interest income recognized on impaired loans during the year(1)(2)	376,814	296,348

- (1) Had the impaired loans performed in accordance with their original terms, additional interest income of 132,603 million Won and 223,133 million Won would have been recorded in 2000 and 2001, respectively.
- (2) Of these amounts, 171,742 million Won and 120,579 million Won as of December 31, 2000 and 2001, respectively, relate to troubled debt restructurings.

As discussed in Note 1, adverse economic conditions in the Korean economy may continue to have a negative effect on debtors of the Bank. The Bank owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential continuation for the adverse trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Bank's consolidated financial statements.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The table below summarizes the changes in the allowance for credit losses:

	1999			2000		
	Loans	Guarantees and Acceptances(1)	Total	Loans	Guarantees and Acceptances(1)	Total
	(all amounts expressed in millions of Won)					
Allowance at January 1,	2,575,978	67,659	2,643,637	2,623,382	71,841	2,695,223
Provisions for credit losses	1,010,400	4,182	1,014,582	261,929	14,094	276,023
Allowance relating to loans repurchased from KAMCO	67,058	—	67,058	24,999	—	24,999
Allowance relating to merger with H&CB effective November 1, 2001	—	—	—	—	—	—
Charge-offs	(1,080,298)	—	(1,080,298)	(729,881)	—	(729,881)
Recoveries	50,244	—	50,244	213,218	—	213,218
Allowance at December 31,	<u>2,623,382</u>	<u>71,841</u>	<u>2,695,223</u>	<u>2,393,647</u>	<u>85,935</u>	<u>2,479,582</u>
	2001					
	(all amounts expressed in millions of Won)					
Allowance at January 1,	2,393,647	85,935	2,479,582			
Provisions for credit losses	1,264,000	(9,153)	1,254,847			
Allowance relating to loans repurchased from KAMCO	7,898	—	7,898			
Allowance relating to merger with H&CB effective November 1, 2001	1,278,622	27,584	1,306,206			
Charge-offs	(1,645,036)	—	(1,645,036)			
Recoveries	208,452	—	208,452			
Allowance at December 31,	<u>3,507,583</u>	<u>104,366</u>	<u>3,611,949</u>			

(1) The allowance for guarantees and acceptances is included in "Other liabilities".

12. Investment in Capital Leases

The Bank originates direct financing leases on certain machinery, computers, and various other equipment for customers in a variety of industries throughout Korea. Income attributable to the leases is initially recorded as unearned income and subsequently recognized as finance income using the effective interest method, over the term of the leases. Residual values are generally guaranteed by the lessee. The terms of the leases are generally from three to 12 years. The components of the net investment in direct financing leases at December 31, 2000 and 2001, which are included in "Loans", are as follows:

	2000	2001
	(all amounts expressed in millions of Won)	
Gross lease payments receivable	670,179	656,132
Unearned income	(77,713)	(87,957)
Total	<u>592,466</u>	<u>568,175</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The scheduled maturities of gross lease payments receivable at December 31, 2001, expressed as a percentage of the total, are as follows:

Within 12 months	36.1%
13 to 24 months	21.1
25 to 36 months	16.6
37 to 48 months	10.1
After 48 months	16.1
	<u>100.0%</u>

13. Premises and Equipment

Premises and equipment at December 31, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>
	<small>(all amounts expressed in millions of Won)</small>	
Land	500,349	725,668
Building	583,652	889,320
Equipment and furniture	554,702	711,806
Capitalized software costs	28,601	62,251
Leasehold improvements	33,110	63,246
Construction in progress	5,440	174,178
Operating lease assets	12,910	4,272
	<u>1,718,764</u>	<u>2,630,741</u>
Less: Accumulated depreciation and amortization	(565,646)	(600,360)
Premises and equipment, net	<u>1,153,118</u>	<u>2,030,381</u>

The Bank incurred depreciation expense on its buildings, equipment and furniture, leasehold improvements and operating lease assets of 101,782 million Won, 104,152 million Won and 143,883 million Won, and amortization expense on its software costs of 298 million Won, 298 million Won and 10,869 million Won for the years ended December 31, 1999, 2000 and 2001, respectively. The remaining useful lives of certain capitalized software were estimated to be one year, over which period the software was depreciated.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

14. Other assets

Other assets as of December 31, 2000 and 2001 consisted of the following:

	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)	
Intangible assets	945	530,329
Goodwill	175,724	162,206
Accounts receivable	108,924	122,946
Accrued income	38,766	350
Payments in advance	5,283	33,392
Deferred tax assets	283,539	259,932
Other investments	416,278	682,378
Prepaid expenses	46,180	58,401
Others	99,353	165,542
Total	<u>1,174,992</u>	<u>2,015,476</u>

At December 31, 2001, intangible assets included the core deposit and credit card relationship intangibles acquired as a result of the merger with H&CB (see Note 3).

Amortization expense on the Bank's intangible assets of 13,647 million Won, 13,744 million Won and 24,213 million Won for the years ended December 31, 1999, 2000 and 2001, respectively, were included in the consolidated statements of income and comprehensive income in "Depreciation and amortization expense".

15. Deposits

Deposits as of December 31, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>	<u>Weighted Average Rate Paid for 2001</u>
	(all amounts expressed in millions of Won)		
Interest-bearing deposits:			
Interest-bearing demand deposits	383,030	663,347	1.60%
Savings deposits	15,462,248	32,838,222	1.88%
Certificate of deposit accounts	2,424,947	1,154,110	6.08%
Other time deposits	30,266,880	63,499,001	7.21%
Mutual installment deposits	5,663,510	12,740,394	7.78%
Total interest-bearing deposits	54,200,615	110,895,074	5.31%
Noninterest bearing deposits:			
Demand accounts	1,982,268	4,141,427	
Total deposits	<u>56,182,883</u>	<u>115,036,501</u>	5.16%

Mutual installment deposits are interest-bearing accounts offered by the Bank which enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Bank. Prior to qualifying for a loan, a customer must make required monthly deposits to the mutual installment account for a contracted term of less than five

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

years. A customer is not required to fulfill the deposit term prior to requesting a loan from the Bank, but loan amounts and terms are not as favorable as those associated with a loan request made after completing the deposit contract term.

The contractual schedule of maturities of certificate of deposits, other time deposits, and mutual installment deposits at December 31, 2001 was as follows:

	(all amounts expressed in millions of Won)
2002	62,484,828
2003	8,969,510
2004	4,050,814
2005	1,124,528
2006	487,582
Thereafter	<u>276,243</u>
Total	<u><u>77,393,505</u></u>

The KDIC provides deposit insurance up to a total of 50 million Won per depositor in each bank pursuant to the Depositor Protection Act for deposits due after January 1, 2001, regardless of the placement date of deposit.

16. Other Borrowed Funds

A summary of other borrowed funds at December 31, 2000 and 2001 is presented below:

	<u>2000</u>		<u>2001</u>	
	<u>Outstanding Balance</u>	<u>Weighted Average Interest Rate</u>	<u>Outstanding Balance</u>	<u>Weighted Average Interest Rate</u>
	(all amounts expressed in millions of Won)			
Kookmin Bank				
Borrowings from the Bank of Korea	860,127	4.63%	1,396,664	3.27%
Borrowings in foreign currencies	454,261	6.77%	1,429,640	5.49%
Borrowings from trust account	1,044,678	5.37%	1,660,358	4.67%
Other borrowings	<u>1,161,545</u>	7.06%	<u>2,702,644</u>	6.61%
Subtotal	3,520,611	5.93%	7,189,306	5.29%
Subsidiaries				
Borrowings from trust accounts of Kookmin Bank	119,400	8.46%	185,100	6.29%
Borrowings from other financial institutions . . .	<u>2,728,546</u>	8.42%	<u>3,437,273</u>	6.47%
Subtotal	<u>2,847,946</u>	8.49%	<u>3,622,373</u>	6.46%
Total other borrowed funds	<u><u>6,368,557</u></u>	7.07%	<u><u>10,811,679</u></u>	5.68%

Other borrowed funds are defined as borrowed funds with original maturities of less than one year.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

17. Secured Borrowings

The Bank transferred certain non-performing loans to special purpose entities, which in turn issued beneficial interests collateralized by such loans. In addition, one of the Bank's majority-owned subsidiaries, Kookmin Credit Card Co., Ltd. ("Kookmin Credit Card") transferred credit card loans and revolving assets to a special purpose entity ("SPE"). In accordance with SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" as superseded by SFAS No. 140, these transactions have been accounted for as secured borrowings. As a result, the loans and securities collateralizing these borrowings are included in "Loans" and "Available-for-sale securities" or "Held-to-maturity securities," respectively, and the beneficial interests issued by the SPE, which pay interest at rates of 5.14% to 13.50% per annum, are included in "Secured borrowings".

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the secured borrowings and relevant collateral as of December 31, 2000 and 2001 is as follows:

Maturity	2000			2001			
	Secured borrowings	Collateral Loans Securities		Secured borrowings	Collateral Loans Securities		
(All amounts are expressed in millions of Won)							
Kookmin 1st ABS Specialty Co., Ltd. 9.52%-10.52% senior collateralized bond obligation	—	107,683	212,344	—	—	—	—
Kookmin 2nd ABS Specialty Co., Ltd. 9.99999% senior collateralized bond obligation	2001-2002	104,256	141,098	—	30,000	60,490	—
Kookmin 3rd ABS Specialty Co., Ltd. 8.38%-9.03% senior collateralized bond obligation	2002	57,424	151,347	—	61,000	68,183	—
Kookmin 4th ABS Specialty Co., Ltd. 7.47%-8.23% senior collateralized bond obligation	2002-2003	—	—	—	56,000	71,083	—
Kookmin 5th ABS Specialty Co., Ltd. 5.43%-6.16% senior collateralized bond obligation	2003	—	—	—	82,000	178,594	—
Kookmin Credit Card 1st ABS Specialty Co., Ltd. 7.24% senior collateralized bond obligation	—	300,000	326,488	—	—	—	—
Asset-backed commercial paper 5.00%	2002	—	—	—	165,000	234,302	—
Kookmin Credit Card 2nd ABS Specialty Co., Ltd. 7.40% senior collateralized bond obligation	—	500,000	862,490	—	—	—	—
Asset-backed commercial paper 5.23%	2002	—	—	—	500,000	746,418	—
Kookmin Credit Card 3rd ABS Specialty Co., Ltd. 7.55% collateralized bond obligation	2004	—	—	—	500,000	629,836	—
Kookmin Credit Card 4th ABS Specialty Co., Ltd. 7.51%-8.14% collateralized bond obligation	2002-2004	—	—	—	500,000	619,232	—
Kookmin Credit Card 5th ABS Specialty Co., Ltd. Libor+0.475% collateralized bond obligation	2004	—	—	—	397,830	524,108	—
H&CB 2nd ABS Specialty Co., Ltd. 1.0%-13.5% subordinated collateralized bond obligation	2003-2005	—	—	—	84,700	—	44,223
H&CB 3rd ABS Specialty Co., Ltd. 10.12% senior collateralized bond obligation	2003	—	—	—	32,000	101,203	—
H&CB 5th ABS Specialty Co., Ltd. 5.14%-6.41% senior collateralized bond obligation	2002-2004	—	—	—	134,000	202,701	—
Other 5.50%-8.10% securities sold under repurchase agreement	2002	399,656	—	466,669	2,959,897	—	2,984,700
Gross secured borrowings		1,469,019			5,502,427		
Less: Discount		(1,029)			(959)		
Total secured borrowings, net		<u>1,467,990</u>	<u>1,693,767</u>	<u>466,669</u>	<u>5,501,468</u>	<u>3,436,150</u>	<u>3,028,923</u>

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Long-term debt

The following table is a summary of long-term debt (net of unamortized original issue discount) at December 31, 2000 and 2001:

	<u>Maturity</u>	<u>2000</u>	<u>2001</u>	
		(all amounts expressed in millions of Won)		
Senior				
Kookmin Bank				
Won currency				
4.0%-5.5%	Notes payable to Ministry of Finance and Economy	2011-2021	89,165	362,508
2.0%-5.0%	Notes payable to Korea Development Bank	2004-2008	123,805	4,831
2.0%-6.8%	Notes payable to other government funds	2002-2016	451,153	631,931
4.0%-9.6%	Notes payable to Industrial Bank of Korea	2002-2010	406,230	398,638
4.6%-10.6%	Finance debentures	2002-2007	3,674,125	1,732,755
5.3%-5.6%	Notes payable to Samsung Life Insurance	2002	—	260,000
5.7%-6.4%	Notes payable to Daehan Life Insurance	2002-2003	—	220,000
5.5%-8.0%	Notes payable to Kyobo Life Insurance	2002	—	160,000
6.2%	Notes payable to Hungguk Life Insurance	2002	—	40,000
2.2%-8.0%	Other notes payable	2005-2011	1,144,974	1,279,381
	Subtotal		<u>5,889,452</u>	<u>5,090,044</u>
Foreign currency				
3.3%-4.5%	Floating rate finance debentures(1)	2002-2003	1,077,887	845,989
1.1%-4.5%	Other floating rate notes payable(1)	2002-2012	1,182,575	1,166,357
	Subtotal		<u>2,260,462</u>	<u>2,012,346</u>
Subsidiaries				
5.5%-10.0%	Borrowings from financial institutions in Won	2002-2027	306,206	687,979
6.4%-10.5%	Borrowings from financial institutions in foreign currencies	2002-2008	373,466	217,632
3.0%-5.7%	Borrowings from Small and Medium Company Promotion Fund	2002-2012	30,346	27,946
5.1%-13.0%	Finance debentures	2002-2015	3,524,633	4,499,003
	Subtotal		<u>4,234,651</u>	<u>5,432,560</u>
Subordinated				
Kookmin Bank				
Won currency				
	Notes payable to Samsung Life Insurance	—	230,000	—
9.0%-11.84%	Notes payable to Daehan Life Insurance	2002	95,000	25,000
	Notes payable to Kyobo Life Insurance	—	60,000	—
	Notes payable to Hungguk Life Insurance	—	40,000	—
7.5%-8.5%	Floating rate finance debentures(1)	2003-2004	533,600	881,800
8.7%-16.0%	Finance debentures	2003-2006	965,100	2,673,557
	Subtotal		<u>1,923,700</u>	<u>3,580,357</u>
Foreign currency				
3.9%	Floating rate finance debentures(1)	2006	302,328	265,220
3.0%	Convertible debentures	2005	286,861	265,220
	Subtotal		<u>589,189</u>	<u>530,440</u>
	Gross long-term debt		14,897,454	16,645,747
	Less: Discount		(100,864)	(19,371)
	Total long-term debt, net		<u>14,796,590</u>	<u>16,626,376</u>

(1) Interest rates on floating rate debt are those rates in effect at December 31, 2001.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Long-term debt is predominately denominated in Won, US dollars, or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Inter-bank Offered Rate (LIBOR) and the monthly Public Fund Prime Rate published by the Korean government and are reset on a monthly, semi-annual and quarterly basis, respectively. The weighted-average interest rate for long-term debt was 8.33% and 6.88% as of December 31, 2000 and 2001, respectively.

Convertible Debentures

Convertible debentures outstanding were held by Goldman Sachs Capital Koryo, L.P. (“GSCK”). The convertible debentures are denominated in US dollars. Terms are as follows:

Face value	US\$ 200 million
Issue price	US\$ 200 million
Conversion price	22,124 Won per share
Conversion stock	Common stock
Convertible period	July 14,1999~May 14, 2005
Conversion exchange rate	US\$ 1 :₩1,170.50
Principal payment if not converted	Due in full at maturity

The carrying amounts of convertible debentures held by GSCK as of December 31, 2000 and 2001 were 251,940 million Won and 265,220 million Won, respectively.

Floating rate subordinated convertible bonds with face value of US\$ 25 million issued to International Finance Corporation were outstanding as of December 31, 2000, and were converted into common shares at a conversion price of 14,895 Won per share in 2001 (see Note 23).

The beneficial conversion feature of the debentures is calculated as the difference between the average market price of the Bank’s shares as of the commitment date versus the conversion price, multiplied by the number of the Bank’s shares into which the debentures may be converted. In 1999, 55,722 million Won was recorded as interest expense relating to the beneficial conversion feature of the GSCK convertible debentures.

Debt Maturity Schedule

The combined aggregate amount of contractual maturities of all long-term debt at December 31, 2001 was as follows:

	(all amounts expressed in millions of Won)
Due in 2002	3,972,910
Due in 2003	5,169,571
Due in 2004	2,580,756
Due in 2005	1,127,201
Due in 2006	1,808,017
Thereafter	<u>1,987,292</u>
Gross long-term debt	16,645,747
Less: Discount	<u>(19,371)</u>
Total long-term debt, net	<u><u>16,626,376</u></u>

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Early Extinguishment of Debt

Kookmin Leasing incurred net losses of approximately 60,976 million Won and 302,955 million Won for the years ended December 31, 1999 and 2000, respectively, and had negative net assets of 132,668 million Won and 435,362 million Won as of December 31, 1999 and 2000, respectively. In 2000 and 2001, the creditors of Kookmin Leasing agreed to a restructuring plan whereby 1,311,498 million Won of Kookmin Leasing's debt was restructured, resulting in (i) forgiveness of 66,753 million Won of debt, (ii) early repayment of 268,570 million Won of debt, (iii) a conversion of 270,393 million Won of debt into 40,847,000 shares of Kookmin Leasing's common stock and non-interest bearing convertible bonds of 66,158 million Won maturing in 2015, and (iv) extended repayments and reduced interest rates on 705,782 million Won of debt. As a result, Kookmin Leasing recognized a gain on extinguishment of debt of 13,323 million Won and 53,822 million Won, net of tax of 5,930 million Won and 23,955 million Won for the years ended December 31, 2000 and 2001, respectively. After giving effect to the issuance of additional shares related to the restructuring, the Bank's ownership in Kookmin Leasing decreased from 89.61% to 88.66% as of December 31, 2001. Subsequent to the restructuring, Kookmin Leasing had negative net assets of 4,511 million Won and recorded net income of 64,831 million Won as of and for the year ended December 31, 2001.

Kookmin Leasing and Finance (Hong Kong) Ltd., a wholly owned subsidiary of the Bank, also restructured its debt in 2001, which resulted in a gain on extinguishment of debt of 4,717 million Won, net of tax of 2,100 million Won for the year ended December 31, 2001.

19. Other Liabilities

Other liabilities at December 31, 2000 and 2001 comprise the following:

	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)	
Accrued retirement benefits	541,363	25,262
Accrued expenses	301,911	465,214
Accounts payable	354,453	246,075
Unearned income	142,376	168,416
Tax withholdings and income tax payable	378,387	315,790
Guarantee deposits received	82,930	151,889
Due to agencies	320,574	705,727
Allowance for losses on guarantees and acceptances	85,935	104,366
Utility bill payments received on behalf of government	36,004	254,146
Others	238,529	381,580
Total	<u>2,482,462</u>	<u>2,818,465</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

20. Noninterest Income

The components of noninterest income for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)		
Trust fees, net	95,805	119,662	217,353
Other fees and commission income			
Commissions received on fund management	—	—	34,098
Commissions and fees received for brokerage and agency activities	15,728	21,097	11,569
Commissions received on credit card	265,438	450,671	879,632
Commissions received in remittance	34,887	34,841	36,775
Commissions received on letters of credit	24,742	25,716	33,210
Other	127,015	96,475	209,542
Subtotal	<u>467,810</u>	<u>628,800</u>	<u>1,204,826</u>
Net trading revenue			
Equity securities	115,624	(208,431)	4,318
Debt securities	142,275	147,893	31,539
Foreign exchange contracts and derivative instruments	249,264	73,838	88,630
Subtotal	<u>507,163</u>	<u>13,300</u>	<u>124,487</u>
Net gain (loss) on investment securities			
Equity securities	(43,073)	(55,979)	(20,337)
Debt securities	166,796	62,129	70,273
Other	62,244	5,320	(17,432)
Subtotal	<u>185,967</u>	<u>11,470</u>	<u>32,504</u>
Gain on disposition of subsidiaries	14,972	—	—
Other noninterest income			
Net gain on sale of loans	25,497	4,505	1,317
Other	100,470	88,717	121,852
Subtotal	<u>125,967</u>	<u>93,222</u>	<u>123,169</u>
Total noninterest income	<u><u>1,397,684</u></u>	<u><u>866,454</u></u>	<u><u>1,702,339</u></u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

21. Noninterest Expense

The components of noninterest expense for the years ended December 31, 1999, 2000 and 2001 were as follows:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)		
Salaries and employee benefits			
Salaries and other benefits	550,437	607,124	933,647
Provision for accrued severance benefits	108,594	98,423	124,422
Subtotal	<u>659,031</u>	<u>705,547</u>	<u>1,058,069</u>
Depreciation and amortization			
Depreciation on premises and equipment	102,080	104,450	154,752
Amortization on intangible assets	13,647	13,744	24,213
Subtotal	<u>115,727</u>	<u>118,194</u>	<u>178,965</u>
Other administrative expenses	<u>299,395</u>	<u>334,484</u>	<u>411,358</u>
Credit card fees			
Commissions paid on credit card	75,559	135,744	239,582
Commissions paid on troubled credit card	3,312	6,047	137
Subtotal	<u>78,871</u>	<u>141,791</u>	<u>239,719</u>
Other fees and commissions			
Insurance fees on deposits to KDIC	23,218	40,285	61,898
Contribution to guarantee funds	52,017	67,165	87,626
Commissions on overdue loans	3,462	76,435	92,078
Other	117,434	39,916	95,044
Subtotal	<u>196,131</u>	<u>223,801</u>	<u>336,646</u>
Loss on disposition of subsidiaries	<u>56,213</u>	—	—
Other noninterest expenses			
Loss on disposition of assets	23,439	28,626	8,791
Tax expenses other than income tax	49,968	51,250	69,312
Other	52,829	78,934	102,996
Subtotal	<u>126,236</u>	<u>158,810</u>	<u>181,099</u>
Total noninterest expense	<u><u>1,531,604</u></u>	<u><u>1,682,627</u></u>	<u><u>2,405,856</u></u>

22. Redeemable Preferred Stock

On December 28, 1998, the Bank issued 40 million shares of non-cumulative, non-participating 1% redeemable preferred shares with a par value of 5,000 Won to Korea Deposit Insurance Corporation (“KDIC”) in exchange for KDIC marketable, non-callable bonds having a face amount of 200,000 million Won. The issuance of the redeemable preferred stock and the purchase of the bonds from KDIC was effected to improve the Bank’s Bank of International Settlements (“BIS”) ratio after the purchase and assumption arrangement related to Daedong bank. Under the decision of Financial Supervisory Commission (“FSC”) in accordance with the *Act Concerning The Structural Improvement of the Financial Industry*, the Bank took over certain assets, including loans classified as normal or precautionary, and assumed substantially all of the liabilities of Daedong bank in 1998.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The KDIC bonds are guaranteed by the Korean government and were scheduled to mature in March 2004. Interest on the bonds was paid quarterly and principal was payable in full at maturity. The KDIC bonds bore interest of 1% per annum, and the preferred shares were subject to a non-cumulative dividend of 1%. The preferred shares were redeemable pursuant to a set redemption schedule. Any preferred shares that were not redeemed at the scheduled redemption date were subject to an increased dividend rate equal to the current market rate of the KDIC bonds at such date and were convertible into the Bank's common shares.

Pursuant to the redemption schedule, the Bank repurchased 8 million preferred shares in 2000 and 8 million preferred shares in January 2001. The Bank repurchased the remaining 24 million preferred shares in October 2001 at the request of KDIC. In connection with these redemptions, KDIC redeemed 40,000 million Won of its corporate bonds in 2000 and the remaining 160,000 million Won of its bonds in 2001.

At December 31, 2000, the KDIC bonds were netted against preferred shares in stockholders' equity as the bonds were not deemed to be economically separable from the preferred shares. In addition, interest income on the bonds was netted against the dividends declared on the preferred shares, resulting in no net effect on operations or retained earnings in 1999 and 2000. At December 31, 2001, there were no remaining preferred shares or bonds outstanding.

23. Common Stock

Issuances of common stock

Included in the common shares as at December 31, 2001 are 22,733,276 common shares (7.59%) issued as American Depositary Shares, which are listed on the New York Stock Exchange.

On June 14, 1999, the Bank issued 17,768,870 common shares to GSCK, for 20,260 Won per share. The Bank recorded total gross proceeds of 360,000 million Won, less issuance costs in the amount of 3,624 million Won.

On November 19, 1999, the Bank issued 19,731,767 common shares for 19,247 Won per share. The Bank recorded total gross proceeds of 379,780 million Won, less issuance costs in the amount of 969 million Won.

On June 23, 2000, Kookmin Credit Card issued 14,720,298 shares of its common stock on the KOSDAQ market, an over-the-counter market in Korea, at 15,000 Won per share. The offering reduced the Bank's percentage ownership in Kookmin Credit Card from 93.77% to 74.78%, however the offering price per share was substantially higher than the Bank's carrying value per share. This difference resulted in a gain of 99,933 million Won, which the Bank recognized in "Additional paid-in capital".

The Bank is authorized to issue to non-stockholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of 2,500,000 million Won and 500,000 million Won, respectively. With regard to these instruments, at December 31, 2001, the Bank had subordinated foreign currency convertible bonds outstanding of 265,220 million Won (equivalent to US\$200 million, convertible into 10,581,269 shares at December 31, 2001) to GSCK.

In 2001, International Financial Corporation exercised its right to convert bonds with total carrying amounts of 34,921 million Won into the Bank's common stock. As a result of this conversion, the Bank issued additional common stock of 2,353,202 shares in 2001 and the Bank's stockholders' equity increased by 38,363 million Won in total.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Dividends

On January 31, 2001, the Bank's board of directors declared a cash dividend of 10% to stockholders of record as of December 31, 2000. The total payment, which amounted to 149,409 million Won, was paid on March 19, 2001 and was deducted from retained earnings in 2001.

On March 22, 2002, the Bank's stockholders' meeting declared a stock dividend of 6% and a cash dividend of 2% to stockholders of record as of December 31, 2001.

Stock dividends of 851,351 million Won were issued on April 3, 2002, and cash dividends amounting to 29,967 million Won were paid out on April 3, 2002. The stock dividends were deducted from retained earnings and reflected in common stock outstanding as of December 31, 2001. Earnings per share for the each of the three years ended December 31, 2001 have been adjusted and restated to reflect the stock dividends declared on March 22, 2002 (see Note 28).

Merger with H&CB

Effective November 1, 2001, the Bank merged with H&CB (see Note 3). Stockholders of the former Kookmin Bank and H&CB listed on the Register of Stockholders at October 31, 2001 received 179,775,233 and 119,922,229 new shares of the Bank, respectively, at the exchange ratio of 1 new common share of the Bank for 1.688346 shares of the former Kookmin Bank and 1 new common share of the Bank for 1 share of H&CB.

Treasury stock

In the event of a merger, Korean Commercial Law requires companies to obtain the approval of the acquiring company's stockholders and to provide an opportunity for dissenting stockholders to exercise appraisal rights. Upon exercise of appraisal rights, the acquiring company would be required to purchase shares from those stockholders at a predetermined price.

Since the merger with H&CB has a material effect on our business, dissenting stockholders have the right under the Korean Commercial Law and the Korean Securities and Exchange Act to require the Bank to purchase their shares. The Bank purchased and retired 63,637 shares in October 2001 from these dissenting stockholders who disagreed with the Bank's merger plan.

After the merger with H&CB, the Bank also repurchased 41,548 shares and held them as treasury stock. Subsequently, 10,000 shares were reissued upon the exercise of employee stock options.

Stock ownership plan

All of the Bank's employees are eligible to participate in the Bank's employee stock ownership association plan. The Bank is not required to and does not make contributions to this plan. Members of the Bank's employee stock ownership association plan have pre-emptive rights to acquire up to 20% of the Bank's shares in public offerings pursuant to the *Korean Securities and Exchange Act*.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

24. Retained Earnings

Retained earnings consist of the following as of December 31, 2000 and 2001:

	<u>2000</u>	<u>2001</u>
	(all amounts expressed in millions of Won)	
Appropriated retained earnings:		
Legal reserve	339,640	413,740
Reserve for business rationalization	39,760	40,760
Reserve for overseas investment losses	13,900	5,417
Other statutory reserves	1,008	1,741
Unappropriated retained earnings	<u>424,806</u>	<u>348,572</u>
Total	<u>819,114</u>	<u>810,230</u>

The *General Banking Act* requires the Bank to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income until such reserve equals 100% of its paid-in capital. This reserve is not available for payment of cash dividends but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Bank's board of directors.

Pursuant to the *Tax Preferential Control Law*, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to the tax reductions arising from tax exemptions and tax credits. This reserve is not available for payment of cash dividends, but may be transferred to capital stock or used to reduce an accumulated deficit, if any.

Pursuant to the Korean tax laws, the Bank was allowed to claim the amount of retained earnings appropriated to reserves for overseas investment losses as a deduction from taxable income for tax reporting purposes. These reserves are not available for payment of dividends until used for the specified purpose or reversed.

The Bank's branch in Japan is required to appropriate a legal reserve of up to 10% of annual income until such reserve equals two billion Japanese Yen. This reserve is used only to reduce any accumulated deficit related to the branch in Japan.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

25. Components of Accumulated Other Comprehensive Income

Comprehensive income includes net income plus transactions and other occurrences that are the result of non-owner changes in equity. For the years ended December 31, 2000 and 2001, the non-owner equity changes are composed of foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Below are the components of accumulated other comprehensive income and the related tax effects for the years ended December 31, 2000 and 2001.

	<u>Foreign currency translation adjustments</u>	<u>Unrealized Holding Gains on Investments</u>	<u>Accumulated Other Comprehensive Income</u>
	(all amounts expressed in millions of Won)		
January 1, 2000	13,835	168	14,003
Foreign currency translation adjustments, net of tax benefit of 6,415	(14,414)	—	(14,414)
Unrealized holding gains arising on available-for-sale securities, net of tax expense of (82,893) ⁽¹⁾	—	186,241	186,241
Current period change	(14,414)	186,241	171,827
Balance, December 31, 2000	(579)	186,409	185,830
Foreign currency translation adjustments, net of tax benefit of 12,525	(29,677)	—	(29,677)
Unrealized holding gains arising on available-for-sale securities, net of tax expense of (46,872) ⁽¹⁾	—	120,922	120,922
Current period change	(29,677)	120,922	91,245
Balance, December 31, 2001	<u>(30,256)</u>	<u>307,331</u>	<u>277,075</u>

(1) Includes the effects of related swaps in 2000 prior to the adoption of SFAS No. 133, and the cumulative effect of accounting change of 5,140 million Won, net of tax of 2,172 million Won upon adoption of SFAS No. 133 on January 1, 2001 (see Note 1).

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

26. Regulatory Requirements

In conformity with the Financial Supervisory Service (“FSS”) and the Basle Committee on Banking Regulations and Supervisory Practices/BIS guidelines, the Bank applied BIS risk-adjusted capital ratios to evaluate its capital adequacy. Banking organizations engaged in international banking are required to maintain a minimum 8% total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%. The capital ratios are calculated based on the Bank’s consolidated balance sheets prepared in accordance with generally accepted accounting principles in Korea (“KGAAP”). In the event the Bank does not maintain a consolidated BIS ratio of 8%, it is subject to corrective actions recommended by the FSS based on the actual financial position and capital ratio of the Bank. Continued non-compliance with these standards could potentially result in closure of the Bank.

The following capital ratios are calculated in accordance with the FSS guidelines, which is materially consistent with BIS guidelines, and the Bank’s consolidated financial statements prepared in accordance with KGAAP.

	2000	2001
	(All amounts expressed in millions of Won, except capital ratios)	
Tier 1 Capital	3,843,002	8,140,976
Tier 2 Capital	2,454,884	3,653,319
Less : Investment in non-consolidated equity investees(1)	—	(43,439)
Total risk-adjusted capital	6,297,886	11,750,856
Risk-Weighted Assets		
On-balance sheet assets	52,702,885	108,695,132
Off-balance sheet assets	3,643,982	6,154,095
Total risk-weighted assets	56,346,867	114,849,227
Total assets	91,098,765	172,598,806
Capital Adequacy Ratios (%)		
Tier 1 capital ratio (%)	6.82	7.09
Tier 2 capital ratio (%)	4.36	3.18
Capital adequacy ratio (%)	11.18	10.23

(1) Equity investees engaged in banking and financial activities of which the Bank owns more than 15% are deducted from total capital, not deducted directly from Tier 1 and Tier 2 pursuant to the guidelines of the FSS.

The *General Banking Act* provides for a minimum paid-in capital of 100 billion Won for nationwide banks, such as the Bank, and 25 billion Won for regional banks.

All banks in Korea, including foreign bank branches, are required to maintain a prescribed solvency position in addition to the minimum capital requirements discussed above. Until March 31, 1999, a bank’s outstanding liabilities arising from guarantees and other contingent liabilities (except those specifically excluded under the *General Banking Act*) were not permitted to exceed 20 times its equity capital amounts. However, beginning on April 1, 1999, the limitation on guarantees and contingent liabilities was eliminated and, for regulatory purposes, guarantees provided by banks are counted as an extension of credit and are regulated accordingly.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

27. Income Taxes

The components of income tax expense for the years ended December 31, 1999, 2000 and 2001 were as follows:

	For the years ended December 31,		
	1999	2000	2001
	(All amounts expressed in millions of Won)		
National tax			
Current	90,738	579,397	577,653
Deferred	227,873	(7,074)	(9,763)
Total national income tax expense	318,611	572,323	567,890
Local tax			
Current	9,074	57,940	57,766
Deferred	22,787	(707)	(977)
Total local income tax expense	31,861	57,233	56,789
Total income tax expense	350,472	629,556	624,679

The preceding table does not reflect the tax effects of unrealized gains and losses on available-for-sale securities. The tax effects of these items are recorded directly in stockholders' equity.

Taxes are calculated for each individual entity in the group. As a result, losses incurred by subsidiaries cannot be offset against profits earned by the parent company. Taxes on the operating profit differ from the theoretical amount that would arise at the statutory tax rate of the home country of the parent as follows:

	1999	2000	2001
		(All amounts expressed in millions of Won)	
Income before income taxes and minority interest for the year ended December 31,	837,402	1,624,551	1,655,577
Prima facie tax calculated at a statutory tax rate	257,920	500,362	509,918
Income not assessable for tax purposes	(12,822)	(78,443)	(35,298)
Expenses not deductible for tax purposes	97,872	111,369	52,113
Adjustment for overseas tax rates	(3,132)	(2,628)	(9,299)
Change in statutory tax rate	—	—	4,334
Losses incurred by subsidiaries, not transferable to parent company	18,781	99,240	105,982
Other	(8,147)	(344)	(3,071)
Income tax expense	350,472	629,556	624,679

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets (“DTA”) and deferred income tax liabilities at December 31, 2000 and 2001 are as follows:

	<u>2000</u>	<u>2001</u>
	<small>(All amounts expressed in millions of Won)</small>	
Deferred income tax assets:		
Allowance for loan losses	179,343	137,337
Allowance for guarantees and acceptances	11,498	8,515
Valuation of trading assets	70,019	41,399
Premises and equipment	96,777	96,722
Long-term debt	40,386	42,147
Valuation of the merged bank’s net assets	140,781	324,788
Other temporary differences	67,046	52,233
Net operating loss	58,160	154,397
Total gross deferred income tax asset	<u>664,010</u>	<u>857,538</u>
Less: Valuation allowance	<u>(58,160)</u>	<u>(154,397)</u>
Deferred income tax asset	<u>605,850</u>	<u>703,141</u>
Deferred income tax liabilities:		
Valuation of trading assets	2,421	30,349
Available-for-sale securities	25,841	181,752
Accrued interest and dividend receivable	157,194	142,633
Other assets	63,645	53,401
Reserve for loss on overseas investments	4,307	1,979
Other temporary differences	68,903	33,095
Total gross deferred income tax liabilities	<u>322,311</u>	<u>443,209</u>
Net deferred income tax assets, including OCI related DTA	<u>283,539</u>	<u>259,932</u>
Less: OCI related DTA	<u>(82,710)</u>	<u>(117,057)</u>
Net deferred income tax assets, excluding OCI related DTA	<u>366,249</u>	<u>376,989</u>

Deferred income tax assets are recognized only to the extent that realization of the related tax benefit is more likely than not. Management believes it is uncertain whether certain subsidiaries will generate sufficient profits to offset their tax losses in 2000 and 2001. Accordingly, a valuation allowance totaling 58,160 million Won and 154,397 million Won in 2000 and 2001, respectively, was established for deferred income tax assets related to NOLs that may not be realized.

At December 31, 2001, the subsidiaries of the Bank had tax net operating loss carryforwards (NOLs) totalling 519,855 million Won. These losses expire in the periods ranging from 2002 to 2006.

28. Earnings Per Share

Basic earnings per share (“EPS”) is computed by dividing net income available to common stockholders by the weighted average common shares issued and outstanding. Diluted earnings per share is computed in a manner consistent with that of basic earnings per share while giving effect to all potentially dilutive common shares that were outstanding during the period, including convertible debentures, convertible preferred shares and stock options. Where the effect of this conversion would have been dilutive, net income available to common stockholders is adjusted by the applicable interest expense on the convertible debentures, however, no adjustment was made to net income

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

related to the convertible preferred shares (see Note 22). The adjusted net income is divided by the weighted average number of common shares issued and outstanding for each period plus amounts representing the dilutive effect of stock options outstanding and the dilution resulting from the conversion of the Bank's convertible debentures and convertible preferred shares, if applicable.

In 2000, 210,000 stock options were excluded from the computation of diluted earnings per share due to their anti-dilutive effect. There were no options outstanding in 1999.

In connection with the H&CB merger, as discussed in Note 1, shareholders of the former Kookmin Bank exchanged 1.688346 shares of former Kookmin Bank common stocks for each share of Kookmin Bank common stock received on November 1, 2001. All historical per share and share amounts have been restated to reflect the effect of this exchange.

On March 22, 2002, the directors declared and stockholders approved a 6% stock dividend that was distributed on April 3, 2002. The stock dividend was recorded at fair value. All historical earnings per share have been restated to reflect the effects of the stock dividend.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table is a summary of the computation of earnings per share for the years ended December 31:

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	<small>(all amounts expressed in millions of Won, except share data)</small>		
Basic Net Income Per Share:			
Net income before extraordinary gain and cumulative effect of accounting change	480,655	914,225	946,674
Extraordinary gain	—	13,323	58,539
Cumulative effect of accounting change	—	—	(13,337)
Net income	<u>480,655</u>	<u>927,548</u>	<u>991,876</u>
Weighted average number of common shares outstanding (thousands)	161,188	188,107	211,037
Net income per share:			
Net income before extraordinary gain and cumulative effect of accounting change	2,982	4,860	4,486
Extraordinary gain	—	71	277
Cumulative effect of accounting change	—	—	(63)
Basic net income per share	<u>2,982</u>	<u>4,931</u>	<u>4,700</u>
Diluted Net Income Per Share:			
Net income before extraordinary gain and cumulative effect of accounting change	480,655	914,225	946,674
Plus: Interest expense on convertible debentures, net of tax	2,353	4,889	6,263
Net income before extraordinary gain and cumulative effect of accounting change for purposes of computing diluted net income per share	483,008	919,114	952,937
Extraordinary gain	—	13,323	58,539
Cumulative effect of accounting change	—	—	(13,337)
Net income for purposes of computing diluted net income per share	<u>483,008</u>	<u>932,437</u>	<u>998,139</u>
Weighted average number of common shares outstanding (thousands)	161,188	188,107	211,037
Dilutive effect of convertible preferred shares (thousands)	23,692	19,290	11,995
Dilutive effect of convertible debentures	7,885	12,400	11,343
Dilutive effect of stock options	—	—	166
Weighted average common shares outstanding—assuming dilution (thousands)	<u>192,765</u>	<u>219,797</u>	<u>234,541</u>
Net income per share:			
Net income before extraordinary gain and cumulative effect of accounting change	2,506	4,182	4,063
Extraordinary gain	—	61	250
Cumulative effect of accounting change	—	—	(57)
Diluted net income per share	<u>2,506</u>	<u>4,243</u>	<u>4,256</u>

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

29. Employee Severance Plan

Accrued employee severance plan obligations included in “Other liabilities” as of December 31, 2000 and 2001 are as follows:

	2000	2001
	(all amounts expressed in millions of Won)	
Balance at January 1,	554,401	541,363
Severance plan expense	98,423	124,422
Balance from the merger with H&CB	—	3,821
Special termination payments	(28,102)	(38,925)
Plan payments	(83,359)	(605,419)
Balance at December 31,	541,363	25,262

Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination (“severance scheme”). Under the *Korean National Pension Fund Law*, the Bank was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. The Bank has no additional liability once the amount has been contributed, thus the Bank deducts contributions made to the National Pension Fund from accrued employee severance plan obligations.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment (“interim severance payment”). Such withdrawal was included in the amount of plan payments for both years. Total interim severance payment made by the Bank in 2000 was 40,169 million Won.

Subsequent to the merger, management had designed another set of severance scheme rules to substitute those previously adopted by the former Kookmin Bank and H&CB. Employees were allowed to make a one time withdrawal of interim severance payment upon their acceptance of the new severance scheme. The Bank had paid 465,356 million Won to the employees who had accepted the new scheme and requested their interim severance payments in 2001.

In addition to regular termination benefits, the Bank paid special termination benefits of 28,102 million Won and 38,925 million Won for the years ended December 31, 2000 and 2001, respectively, to 381 employees who accepted early retirement.

30. Employee Stock Option Plan

The Bank began granting options to certain executive officers starting fiscal year 2000. On March 18, 2000, the Bank granted certain executive officers 233,957 options to purchase the Bank’s common stock at an exercise price of 23,469 Won per share. An additional 215,003 options were granted on March 15, 2001 at a price of 28,027 Won per share. On November 1, 2001, these options were cancelled and reissued under the terms of the merger agreement. In addition, on November 1, 2001, the Bank granted 964,007 replacement options at a weighted-average exercise price of 14,807 Won per share to H&CB option holders in connection with the merger. On November 16, 2001, the Bank granted 650,000 options at a weighted-average exercise price of 42,700 Won per share to its executive officers. For all of the granted options, Bank may issue common shares or pay in cash the difference between the exercise and the market price at the date of exercise. Restrictions on the grants, including continued employment for a specified period, lapse after third year of vesting. Upon vesting, options may be exercised between five to eight years from the grant date.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

On November 16, 2001, the Board of Directors approved of the Presidential Stock Option Plan (“President’s Plan”) which provides for the grant of stock options to the President if certain measurement criteria have been met. In accordance with the President’s Plan, 200,000 options will be granted if the stock price of the Bank is the highest among the stocks of banks listed on the Korea Stock Exchange based on the average daily closing price announced for three months, prior to the commencement of the exercise period (or in the case of premature retirement, prior to the date of retirement). These options vest over a three-year period beginning on November 16, 2001 and may be exercised up to eight years from the grant date. Exercise of options can be settled through the payment of cash or the issuance of shares at the Bank’s discretion.

The following table summarizes information about options granted and expense recognized at the award date:

	2000		2001	
	Number of Stock Options	Weighted-average Exercise Price Per Share (Won)	Number of Stock Options	Weighted-average Exercise Price Per Share (Won)
Stock options outstanding,				
Beginning of year	—	—	148,074	23,469
Granted	233,957	23,469	2,144,670 ⁽¹⁾⁽²⁾	26,292
Exercised	—	—	(10,000)	5,000
Canceled	—	—	(315,659)	26,403
Forfeited	(85,883)	23,469	(47,419) ⁽²⁾	24,608
Stock options outstanding, end of year	<u>148,074</u>	23,469	<u>1,919,666</u>	26,209
Exercisable at year end	—	—	390,000	5,000
Weighted-average market value at grant date	21,442		43,152	

(1) Includes 964,007 replacement options at a weighted-average exercise price of 14,807 Won in relation to the acquisition of H&CB

(2) 315,659 options were canceled and 315,659 options were reissued under the terms and conditions of the merger agreement with H&CB.

For the years ended December 31, 2000 and 2001, the Bank recognized compensation expense of 148 million Won and 5,307 million Won, respectively.

Subsequent to December 31, 2001, 49,817 options were forfeited.

In addition, on March 22, 2002, the Bank granted stock options to purchase 622,000 shares of common stock to certain executive officers, directors, and employees of the Bank. The stock options were exercisable three years after the grant date and expire on March 22, 2010. Of the options granted, the exercise price for 490,000 options is 57,100 Won per share and the exercise price for remaining options have not been determined.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information about stock options outstanding at December 31, 2001:

<u>Exercise Prices</u> (Won)	<u>Shares</u>	<u>Options Outstanding</u>		<u>Weighted Average Fair Value at Grant Date</u>
		<u>Weighted Average Remaining Contractual Life</u>	<u>Weighted Average Exercise Price</u>	
5,000	390,000	1.3 Years	5,000	37,372
13,900	220,108	1.7 Years	13,900	30,056
23,469	112,529	2.2 Years	23,469	25,700
25,100	111,000	3.7 Years	25,100	27,553
27,600	232,899	2.7 Years	27,600	24,285
28,027	203,130	4.7 Years	28,027	35,372
42,700	650,000	5.4 Years	42,700	27,500
	<u>1,919,666</u>	3.4 Years	26,209	30,139

As permitted by SFAS No. 123, "Accounting for Stock-Based Compensation", the Bank has chosen to apply the recognition and measurement provisions of APB Opinion No. 25, "Accounting for Stock Options Issued to Employees" and related interpretations in accounting for its stock options. Had compensation cost for the Bank's stock options been determined in a manner prescribed by SFAS No. 123, using an option pricing model, intended to estimate the fair value of the awards at the grant date, compensation expense recorded for stock options, net income, earnings per share data, and the related increment in stockholders' equity would have been as follows:

	<u>Year Ended December 31,</u>			
	<u>2000</u>		<u>2001</u>	
	<u>As Reported</u>	<u>Pro Forma</u>	<u>As Reported</u>	<u>Pro Forma</u>
	<i>(All amounts expressed in millions of Won, except per share data)</i>			
Compensation expense related to stock options	148	991	5,307	8,604
Net income	927,548	926,705	991,876	989,594
Earnings per share:				
Basic	4,931	4,926	4,700	4,689
Diluted	4,243	4,238	4,256	4,246

Solely for purposes of providing the disclosures required by SFAS No. 123, the fair value of each option granted is estimated on the date of grant using the Black-Scholes option-pricing model. The weighted average assumptions used for grants made in 2001 are as follows:

	<u>2000 Grants</u>	<u>2001 Grants</u>
Dividend yield	2.25%	2.47%
Expected volatility	71.75%	65.62%
Risk-free interest rate	9.33%	5.35%
Expected option life	4.0 years	3.8 years

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

31. Fair Value of Financial Instruments

The fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Fair value is based on quoted market prices, where available. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. As a result, the fair values of such instruments are derived using present value or other valuation techniques derived based on management's assumptions of the estimated amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, such estimates may not be indicative of net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of SFAS No. 107, "Disclosure about Fair Value of Financial Instruments". Accordingly, the fair value disclosures required by SFAS No. 107 should not be considered an indication of the fair value of the Bank.

Fair values among financial institutions are not comparable due to the wide range of permitted valuation techniques and numerous estimates that must be made. This lack of objective valuation standard introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Bank in comparison with other financial institutions.

The following section summarizes the methods and assumptions used by the Bank, by financial instrument, in estimating fair value. Different assumptions could significantly affect these estimates.

Assets and Liabilities for which fair value approximates carrying value: The carrying values of certain financial assets and liabilities are reported at cost, including cash and due from banks, restricted cash, call loans, securities purchased under resale agreements, accrued interest and dividends receivable, accrued interest payable, security deposits, noninterest-bearing deposits, call money and other borrowed funds. The carrying values of these financial assets and liabilities are considered to approximate their fair values due to their short-term nature and negligible credit losses.

Interest-bearing deposits in other banks: The fair value of fixed interest-bearing deposits are estimated by discounting cash flows based on current rates for similar types of deposits. The fair values of variable rate interest-bearing deposits are considered to approximate their carrying values.

Securities and trading assets/liabilities: Fair values for trading assets, available-for-sale securities and trading liabilities (including trading derivative financial instruments), are the amounts recognized in the consolidated balance sheets, which are based on market prices, where available. Fair values of held-to-maturity securities are also based on market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain swaps where pricing models are used.

Nonmarketable equity investments: Nonmarketable investments, which are recorded in other assets, consist primarily of private equity investments. The fair values of these investments are based on the latest obtainable net asset value of the investees.

Loans receivable: Loans receivable are reported net of specific and general provisions for impairment. The fair value of fixed rate loans is estimated by discounting contractual cash flows

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

based on current rates at which similar loans would be made to borrowers for the same maturities. The fair value of variable rate loans that reprice frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheet.

Deposit liabilities: The fair values of noninterest and variable rate interest bearing deposits approximate their carrying values in the consolidated balance sheets. Fair values for fixed-rate interest bearing deposits are estimated using a discounted cash flow calculation that applies interest rates currently being offered for deposits with similar maturities.

Long-term debt: The aggregate fair values are based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

Derivative financial instruments: All derivatives are recognized on the balance sheet at fair value based on quoted market prices or dealer quotes where available. If quoted market prices are not available, pricing or valuation models are applied to current market information to estimate fair value (see Note 32).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The estimated fair values of the Bank's financial instruments at December 31, 2000 and 2001 were as follows:

	2000		2001	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(all amounts expressed in millions of Won)			
Financial assets:				
Cash and cash equivalents	1,701,471	1,701,471	3,040,690	3,040,690
Restricted cash	1,539,876	1,539,876	4,372,927	4,372,927
Interest-bearing deposits in other banks	1,586,600	1,586,600	592,267	592,267
Call loans and securities purchased under resale agreements	2,491,208	2,491,208	2,012,301	2,012,301
Trading assets	3,103,688	3,103,688	6,874,493	6,874,493
Available-for-sale securities	8,281,394	8,281,394	12,323,965	12,323,965
Held-to-maturity securities	9,004,481	9,300,752	13,224,672	13,514,623
Loans, net	57,040,649	57,036,313	117,452,186	117,574,762
Due from customers on acceptances . . .	1,916,111	1,916,111	1,887,245	1,887,245
Accrued interest and dividends receivable	1,107,219	1,107,219	1,159,580	1,159,580
Security deposits	689,739	689,739	1,243,770	1,243,770
Other assets	1,174,992	1,187,297	2,015,476	2,057,922
Financial liabilities:				
Interest-bearing deposits	54,200,615	54,282,671	110,895,074	111,372,848
Noninterest-bearing deposits	1,982,268	1,982,268	4,141,427	4,141,427
Call money	581,112	581,112	2,701,216	2,701,216
Trading liabilities	717,767	717,767	286,677	286,677
Acceptances outstanding	1,916,111	1,916,111	1,887,245	1,887,245
Other borrowed funds	6,368,557	6,368,557	10,811,679	10,811,679
Accrued interest	2,310,986	2,310,986	4,617,215	4,617,215
Secured borrowings	1,467,990	1,462,440	5,501,468	5,532,443
Long-term debt	14,796,590	15,021,282	16,626,376	16,751,094

The differences between the carrying amounts and the fair values of guarantees, commercial letters of credit, standby letters of credit, and other lending commitments are immaterial to the consolidated financial statements.

32. Derivative instruments and hedging activities

On January 1, 2001, the Bank adopted SFAS No. 133 for its derivative instruments.

In the normal course of business, the Bank enters into derivatives and foreign exchange contracts to meet the financing needs of its customers. The Bank also uses derivative instruments in managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange risks.

The Bank uses interest rate derivatives principally to manage exposure to interest rate risk. Pay fixed interest rate swaps are used to convert fixed rate assets, principally securities, into synthetic

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variable rate instruments. Receive fixed interest rate swaps contracts are used to convert fixed rate funding sources into synthetic variable rate funding instruments. Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Cross-currency swaps are used by the Bank to convert foreign currency denominated funding into floating rate US dollars.

Derivative instruments may expose the Bank to market risk or credit risk in excess of the amounts recorded on the balance sheet. Market risk arises due to market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial instrument and/or an increase in its funding cost. Exposure to market risk is managed through position limits and other controls and by entering into hedging transactions. Credit risk is the possibility that loss may occur from counterparty failure to perform according to the terms of the contract and if the value of collateral held, if any, was not adequate to cover such losses. Credit risk is controlled through credit approvals, limits and monitoring procedures based on the same credit policies used for on-balance-sheet instruments. Generally, collateral or other security is not required. The amount of collateral obtained, if any, is based on the nature of the financial instrument and management's credit evaluation of each counterparty.

Since the Bank's derivatives do not qualify for hedge accounting under SFAS No. 133 in 2001, the Bank reclassified derivatives previously accounted for as hedges to trading derivatives after the adoption of SFAS No. 133. Management of the Bank has established a plan to implement hedge accounting to contracts entered into in the future that will meet the hedge accounting criteria under SFAS No. 133.

Prior to the adoption of SFAS No. 133, gross notional (or contractual) amounts and fair values of derivative financial instruments held for purposes other than trading were as follows:

	December 31, 2000		
	Notional Amount (1)	Unrealized Gains	Unrealized Losses
<i>(All amounts expressed in millions of Won)</i>			
Interest rate swaps	426,709	2,012	50,811
Cross currency swaps	9,906	317	439
Total	436,615	2,329	51,250

(1) Notional amounts in foreign currencies were converted into Won at prevailing exchange rates as of December 31, 2000.

33. Commitments and Contingencies

Legal proceedings

The Bank is a party to certain legal actions arising from its normal course of operations. Management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank and its subsidiaries' financial position, liquidity, or results of operations.

In connection with the sale of the Bank's Mutual Savings & Finance subsidiaries in 1999, the Bank is required to guarantee certain deposits transferred against depositor loss for three years after the date of disposition. In 2001, one institution that purchased these deposits has been liquidated by the Korea Deposit Insurance Corporation ("KDIC"). In connection with this liquidation, the KDIC made payments to fund the insured deposits, most of which were either originated by the institution

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or acquired from institutions other than the Bank. In this regard, the KDIC has commenced an action against the Bank to recover amounts under the Bank's guarantee. The Bank believes the KDIC's claim to be without merit. The Bank does not believe that the outcome of this action will have a significant impact on its financial position or results of operations.

The Bank has also been named in a lawsuit by the former employees of DongNam Bank, seeking continued employment and monetary damages. The case has been decided in favor of the Bank by the Seoul District Court Southern Branch and the Seoul High Court. That decision is, however, being appealed to the Supreme Court. Based on advice from the Bank's legal counsel, management does not believe that liabilities arising from this matter, if any, will have a material adverse effect on the consolidated financial position, liquidity or results of operations of the Bank.

Sale commitment

In July 1999, H&CB entered into a strategic alliance with the ING Groep N.V., a leading global financial services group. ING Insurance International ("ING") presently holds 4.00% of the outstanding common shares in the Bank as a result of the merger with the former Kookmin Bank. Pursuant to the strategic alliance agreement, ING was required to increase its interest the Bank to 8% by November 1, 2001 and to 9.99999% by February 1, 2002.

Following the merger, both the Bank and ING are in the process of negotiating the strategic alliance. Accordingly, the requirement for ING to increase its interest in the Bank has been suspended until May 31, 2002.

Lease commitments

All leases entered into by the Bank as lessee are operating leases. Total rental expense for the years ended December 31, 1999, 2000 and 2001 was 72,188 million Won, 68,594 million Won and 64,937 million Won, respectively. Future minimum rent commitments under noncancelable lease agreements that the Bank entered into as of December 31, 2001 are not material.

In lieu of rent, certain lease agreements require the Bank to advance a non-interest-bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Bank has recorded an equal amount of rent expense and interest income related to these leases of 53,556 million Won, 49,472 million Won and 37,146 million Won on deposit balances of 672,092 million Won, 659,033 million Won and 949,522 million Won for the years ended December 31, 1999, 2000 and 2001, respectively. Such amounts were calculated based on the fixed interest rate for time deposits with similar maturities.

Credit-related commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees are considerably less than those under commitments because the Bank does not generally expect the third party to draw funds under the agreement.

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Commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

For credit related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the counterparty does not perform according to the terms of the contracts. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Bank's actual future credit exposure or liquidity requirements for these commitments.

The Bank did not have any commitments to extend long-term or revolving credit at December 31, 2000 and 2001.

Management computes specific and expected loss components for credit-related commitments. At December 31, 2000 and 2001, the allowance for credit losses on credit-related commitments was 85,935 million Won and 104,366 million Won, respectively, which is reported in "Other Liabilities".

At December 31, 2000 and 2001, the financial instruments whose contract amounts represent credit risk to the Bank were as follows:

	Contract Amount	
	2000	2001
	(All amounts expressed in millions of Won)	
Guarantees	979,082	1,127,819
Commercial letters of credit	1,017,247	1,328,289
Unused lines of credit:		
Commercial	12,052,465	23,408,088
Consumer(1)	41,418,960	80,766,033
Interest rate swaps (unrealized gain)	2,012	—
Cross currency swaps (unrealized gain)	317	—

(1) Of this amount, 36,392,211 million Won and 73,797,990 million Won as of December 31, 2000 and 2001, respectively, relate to the unused credit card limits that may be cancelled by the Bank at any time.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Pledged assets

The primary components of assets pledged as collateral for borrowings and other purposes as of December 31, 2000 and 2001 were as follows:

	<u>2000</u>	<u>2001</u>
	<small>(All amounts expressed in millions of Won)</small>	
Short-term and long-term deposits	100,192	76,238
Trading securities	98,421	33,442
Available-for-sale securities	280,194	410,230
Held-to-maturity securities	2,541,006	5,153,449(1)
Loans	1,693,767	3,981,058
Real estate	1,268	—
Other assets	—	15,475
	<u>4,714,848</u>	<u>9,669,892</u>
Total		

(1) Included in this amount were loans totalling 544,908 million Won, which the Bank had pledged in connection with certain borrowing agreements entered into before December 31, 2001. However, the fund related to these borrowings were not received by the Bank until subsequent to December 31, 2001.

34. Concentrations of Geographic and Credit Risk

Geographic Risk

Loans to borrowers based in Korea comprised 98% and 99% of the Bank's loan portfolio at December 31, 2000 and 2001, respectively. Investments in debt and equity securities of Korean entities comprised 97% and 98% of the Bank's investment portfolio, including investments held by the Bank's venture capital subsidiaries, as of December 31, 2000 and 2001, respectively.

Credit Risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions.

The Bank regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary. No entity was responsible for 10% or more of the Bank's total interest and dividend income for the years ended December 31, 2000 or 2001.

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The table below indicates major products including both on-balance sheet (principally loans) and off-balance sheet (principally unused credit lines) exposures:

	2000			2001		
	Credit Exposure	On-Balance Sheet	Off-Balance Sheet	Credit Exposure	On-Balance Sheet	Off-Balance Sheet
	(All amounts expressed in millions of Won)					
Commercial and industrial loans	42,809,423	29,794,794	13,014,629	56,421,972	36,113,121	20,308,851
Construction loans	2,168,165	2,168,165	—	4,141,432	4,141,432	—
Other commercial loans	1,927,552	1,216,256	711,296	4,767,575	1,668,338	3,099,237
Lease financing	592,466	592,466	—	568,175	568,175	—
Mortgages and real estate	8,068,339	8,068,339	—	37,194,224	37,194,224	—
Credit cards	44,713,261	8,321,050	36,392,211	90,548,946	16,750,956	73,797,990
Other consumer	13,500,587	8,150,969	5,349,618	30,280,060	23,312,017	6,968,043
Foreign loans	1,084,690	1,084,690	—	1,146,098	1,146,098	—
Total	114,864,483	59,396,729	55,467,754	225,068,482	120,894,361	104,174,121

35. Related Party Transactions

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits, debt securities, acceptances outstanding and foreign currency transactions. These transactions are carried out on commercial terms and conditions and at market rates and are not disclosed below.

KDIC

On December 28, 1998, in connection with the purchase and assumption arrangement related to Daedong Bank, the Bank issued 40 million shares of noncumulative and nonparticipating redeemable preferred shares to KDIC. In exchange, KDIC issued marketable, non-callable bonds to the Bank. At December 31, 2000, the bonds were netted against the preferred shares in stockholders' equity. There are no preferred shares or bonds outstanding as of December 31, 2001 (see Note 22).

Goldman Sachs Capital Koryo, L.P. ("GSCK")

GSCK's ownership interest in the Bank was 11.07% and 6.52% on December 31, 2000 and 2001, respectively. As of December 31, 2000 and 2001, GSCK holds convertible bonds issued by the Bank totalling 251,940 million Won and 265,220 million Won, respectively (see Note 18).

Youngpoong Co.

One of the Bank's outside directors is the chief executive officer of Youngpoong Co. ("Youngpoong"), a public company based in Korea. As of December 31, 2000 and 2001, Youngpoong owned 0.12% and 0.48% of the Bank's outstanding common shares, respectively.

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National Housing Fund

The National Housing Fund (the “NHF”) was established by the Korean Government to provide financial aid in the form of small-scale housing loans to low-income households and to construction companies that specialized in low-income housing projects. Prior to the merger, H&CB was the sole agent (consignee) designated by the Korean Government to manage the sources and uses of funds of the NHF. Upon the merger, the Bank succeeded H&CB’s operations, and continues to act as the sole agent since November 1, 2001. The primary role of the Bank is to manage the NHF fund in accordance with the mandate issued by the Korean Government. The Bank is mandated by the Korean Government to borrow money from the NHF. The Bank’s borrowing rate from the NHF is 4.5% for the Low-Income Household loans and the Worker’s Housing Loan. The Bank is compensated through management fees on a quarterly basis.

Housing Finance Credit Guarantee Fund

The Housing Finance Credit Guarantee Fund (the “HFCGF”) was established by the Korean Government to provide guarantees to mortgage lenders for defaults by borrowers if the borrowers are unable to provide the collateral required by a bank. Upon the merger, the Bank had succeeded H&CB’s operations and continues to provide mortgage lending to the borrowers who are unable to provide the collateral required. The Bank receives a fee from the HFCGF for underwriting mortgage loans, which HFCGF guaranteed. For the two months ended December 31, 2001, such fee amounted to 1.3 billion Won.

Loans to Related Parties

The table below summarizes the changes in the amount of loans to directors, director nominees and executive officers.

	2001
	(All amounts expressed in millions of Won)
Loan at January 1,	476
New loans	891
Repayments	<u>(375)</u>
Loan at December 31,	<u>992</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The outstanding balances at December 31, 1999, 2000 and 2001 and the related expense and income for the years then ended for related party transactions were as follows:

	1999				
	<u>KDIC</u>	<u>TRUST(1)</u>	<u>GSKC</u>	<u>Youngpoong</u>	<u>Directors</u>
	(all amounts expressed in millions of Won)				
Due from other financial institutions	—	—	—	—	—
Investment securities	2,910,232	—	—	—	—
Loans	387,037	—	—	10,218	295
Due from customers on acceptance	—	—	—	33,300	—
Receivables	36,067	17,536	—	—	—
Borrowings	—	624,746	—	—	—
Convertible debentures	—	—	229,080	—	—
Acceptances outstanding	—	—	—	33,300	—
Interest income on deposits	—	1,373	—	—	—
Interest income on securities	255,515	—	—	—	—
Interest income on loans	22,601	—	—	1,330	19
Fees and commission income	—	135,654	—	366	—
Interest expense on borrowings	—	22,954	—	—	—
Interest expense on debentures	—	—	3,837	—	—
Trust performance guarantee	—	40,735	—	—	—
	2000				
	<u>KDIC</u>	<u>TRUST(1)</u>	<u>GSKC</u>	<u>Youngpoong</u>	<u>Directors</u>
	(all amounts expressed in millions of Won)				
Due from other financial institutions	—	263,286	—	—	—
Investment securities	3,113,635	—	—	—	—
Loans	1,587,037	—	—	760	476
Due from customers on acceptance	—	—	—	6,570	—
Receivables	34,905	8,878	—	—	—
Borrowings	—	1,164,078	—	—	—
Convertible debentures	—	—	251,940	—	—
Acceptances	—	—	—	6,570	—
Interest income on deposits	—	16,298	—	—	—
Interest income on securities	324,383	—	—	—	—
Interest income on loans	51,503	—	—	398	31
Fees and commission income	—	273,252	—	107	—
Interest expense on borrowings	—	33,398	—	—	—
Interest expense on debentures	—	—	7,228	—	—
Trust performance guarantee	—	158,325	—	—	—

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	2001						Directors
	KDIC	TRUST(1)	GSCK	Youngpoong	NHF	HFCGF	
	(all amounts expressed in millions of Won)						
Due from other financial institutions	—	267,334	—	—	—	—	—
Investment securities	5,092,414	—	—	—	—	—	—
Loans	—	—	—	19,197	—	—	992
Due from customers on acceptance	—	—	—	15,650	—	—	—
Receivables	41,261	8,882	—	—	—	—	—
Borrowings	—	1,666,520	—	—	9,637	—	—
Convertible debentures	—	—	265,220	—	—	—	—
Acceptances	—	—	—	15,650	—	—	—
Interest income on deposits	—	16,529	—	—	—	—	—
Interest income on securities	339,063	—	—	—	—	—	—
Interest income on loans	11,053	—	—	504	—	—	56
Fees and commission income	—	234,391	—	40	32,798	1,270	—
Interest expense on borrowings	—	37,655	—	—	—	—	—
Interest expense on debentures	—	—	7,880	—	135	—	—
Trust performance guarantee	—	31,479	—	—	—	—	—

(1) See Note 38.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

36. Principal Subsidiaries

	Country of Incorporation	Percentage Ownership(1)	
		2000	2001
Kookmin Credit Card Co., Ltd.	Korea	76.47%	76.45%
Kookmin Leasing Co., Ltd.	Korea	89.61%	88.66%
Kookmin Venture Capital Co., Ltd.	Korea	94.11%	94.11%
Kookmin Data System Corp.	Korea	99.98%	99.98%
Kookmin Futures Co., Ltd.	Korea	99.98%	99.98%
Kookmin Bank Venture Capital Co., Ltd.	Korea	99.99%	99.99%
Kookmin Bank Investment Trust Management Co., Ltd.	Korea	87.00%	87.00%
Kookmin Bank Luxembourg S.A.	Luxembourg	100.00%	100.00%
K.B. International (London) Ltd.	United Kingdom	100.00%	100.00%
Kookmin Finance Asia Ltd.	Hong Kong	100.00%	100.00%
Kookmin Leasing & Finance (Hong Kong) Ltd.	Hong Kong	89.61%	88.66%
Joeun Investment Trust Management Co., Ltd.	Korea	—	80.00%
Joeun Real Estate Trust Co., Ltd.	Korea	—	100.00%
Joeun Industrial Co., Ltd.	Korea	—	100.00%
Kookmin Finance Hong Kong Ltd.	Hong Kong	—	100.00%
Joeun Leasing Co., Ltd.	Korea	—	85.43%
Frontier Investment Co., Ltd.	Korea	—	100.00%
Kookmin 1st ABS Specialty Co., Ltd. (2)	Korea	15.00%	15.00%
Kookmin 2nd ABS Specialty Co., Ltd. (3)	Korea	15.00%	15.00%
Kookmin 3rd ABS Specialty Co., Ltd. (3)	Korea	15.00%	15.00%
Kookmin 4th ABS Specialty Co., Ltd. (4)	Korea	—	15.00%
Kookmin 5th ABS Specialty Co., Ltd. (4)	Korea	—	4.90%
Kookmin 6th ABS Specialty Co., Ltd. (4)	Korea	—	4.90%
H&CB9901 ABS Specialty Co., Ltd. (2)	Korea	—	15.00%
H&CB0002 ABS Specialty Co., Ltd. (3)	Korea	—	15.00%
H&CB0003 ABS Specialty Co., Ltd. (3)	Korea	—	15.00%
H&CB 200105 ABS Specialty Co., Ltd. (4)	Korea	—	4.90%
Joeun Real Estate Co. (JERECO) Asset Securitization Specialty Co., Ltd. (5)	Korea	—	15.00%
Kookmin Credit Card 1st ABS Specialty Co., Ltd. (3)	Korea	7.65%	7.65%
Kookmin Credit Card 2nd ABS Specialty Co., Ltd. (3)	Korea	7.65%	7.65%
Kookmin Credit Card 3rd ABS Specialty Co., Ltd. (4)	Korea	—	7.65%
Kookmin Credit Card 4th ABS Specialty Co., Ltd. (4)	Korea	—	7.65%
Kookmin Credit Card 5th ABS Specialty Co., Ltd. (4)	Korea	—	7.65%

(1) Direct and indirect ownership are combined.

(2) Kookmin 1st ABS Specialty Co., Ltd and H&CB 1st ABS Specialty Co., Ltd, loan securitization vehicles established in 1999, Kookmin 1st ABS Specialty Co., Ltd. has been included in the consolidated financial statements of the Bank at December 31, 2000 and Kookmin 1st ABS Specialty Co., Ltd. and H&CB 1st ABS Specialty Co., Ltd. in 2001, respectively, as the majority owner has only a nominal capital investment.

(3) Kookmin 2nd, 3rd ABS Specialty Co., Ltd., H&CB 2nd, 3rd ABS Specialty Co., Ltd and Kookmin Credit Card 1st and 2nd ABS Specialty Co., Ltd., loan securitization vehicles established in 2000, Kookmin 2nd, 3rd ABS Specialty Co., Ltd. and Kookmin Credit Card 1st and 2nd ABS Specialty Co., Ltd have been included in the consolidated financial statements of the Bank at December 31, 2000 and Kookmin 2nd,3rd ABS Specialty Co., Ltd., H&CB 1st, 2nd, 3rd ABS Specialty Co., Ltd and Kookmin Credit Card 1st and 2nd ABS Specialty Co., Ltd in 2001 as the majority owner of each vehicle has only a nominal capital investment.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- (4) Kookmin 4th, 5th, 6th ABS Specialty Co., Ltd., H&CB 5th ABS Specialty Co., Ltd and Kookmin Credit Card 3rd, 4th and 5th ABS Specialty Co., Ltd., loan securitization vehicles established in 2001 and have been included in the consolidated financial statements of the Bank at December 31, 2001 as the majority owner of each vehicle has only a nominal capital investment.
- (5) JERECO securitization vehicle has been included in the consolidated financial statements of the Bank at December 31, 2001 as the majority owner has only a nominal capital investment.

All holdings are in the common shares of the undertaking concerned.

37. Segment Reporting

For management reporting purposes, the Bank's business segment results are reported to management under accounting principles generally accepted in the Republic of Korea ("KGAAP"). The Bank is organized into four major business segments: Retail Banking, Corporate Banking, International Banking and Capital Markets Activities, and Credit Card Operations. These business divisions are based on the nature of the products and services provided, the type or class of customer, and the Bank's management organization, and provide the basis on which the Bank reports its primary segment information:

- *Retail banking*—The retail banking segment's assets and liabilities are mainly with individuals and general households. The segment handles private customer current accounts, savings, deposits, consumer loans and mortgages.
- *Corporate banking*—The corporate banking segment's assets and liabilities are mainly with private and public enterprises. The activities within the segment include loans, overdrafts, other credit facilities, deposits in foreign currencies and other foreign currency activities.
- *International banking and capital markets activities*—Activities within this segment include trading activities in securities and derivatives, activities involving investment security portfolios, making overseas loans, and foreign currency funding through debentures and borrowings.
- *Credit card operation*—The credit card segment's assets and liabilities are mainly with individuals or corporate cardholders and card merchants, and it handles domestic as well as overseas credit and debit card operation. This segment is composed of the operations of Kookmin Credit Card and the card division of Kookmin Bank.

Other operations of the Bank comprise certain subsidiary activities except Kookmin Credit Card, trust account management activities, and activities within guaranteed trust accounts, none of which constitutes a separately reportable segment.

The segment results were prepared based upon KGAAP, which is a basis other than US GAAP. A reconciliation to US GAAP has been provided for certain line items.

Operating revenues and expenses and interest income and expense, related to both third party and inter-segment transactions, are included in determining the operating earnings of each respective segment. The provision for income taxes is comprised of corporate income tax and resident tax surcharges. The income tax expenses are allocated to the respective segment based upon performance.

Transactions between the business segments are reflected on terms established by management.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A summary of the business segment results is shown in the following table.

<u>Year ended December 31, 1999</u>	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>International Banking and Capital Markets Activities</u>	<u>Credit Card Operations</u>	<u>Other</u>	<u>Subtotal before Eliminations</u>	<u>Eliminations (1)</u>	<u>Total</u>
	(All amounts expressed in millions of Won)							
Operating income	4,545,782	2,815,717	3,765,003	904,102	1,418,988	13,449,592	(3,310,060)	10,139,532
Operating expense	4,302,599	3,173,220	3,611,396	818,155	1,506,749	13,412,119	(3,366,265)	10,045,854
Segment results	<u>243,183</u>	<u>(357,503)</u>	<u>153,607</u>	<u>85,947</u>	<u>(87,761)</u>	<u>37,473</u>	<u>56,205</u>	<u>93,678</u>
Interest income	4,373,753	2,596,794	2,074,999	598,761	730,175	10,374,482	(3,521,437)	6,853,045
Interest expense	3,470,979	1,787,049	1,882,200	373,046	705,286	8,218,560	(3,189,636)	5,028,924
Net interest income	902,774	809,745	192,799	225,715	24,889	2,155,922	(331,801)	1,824,121
Provision for loan losses	44,802	961,837	91,904	109,099	280,312	1,487,954	(100,764)	1,387,190
Noninterest income	172,029	218,923	1,690,004	305,341	688,813	3,075,110	211,377	3,286,487
Noninterest expense	722,035	405,078	1,635,403	268,055	418,613	3,449,184	(75,530)	3,373,654
Net noninterest income (loss)	(550,006)	(186,155)	54,601	37,286	270,200	(374,074)	286,907	(87,167)
Depreciation and amortization	64,783	19,256	1,889	67,955	102,538	256,421	(335)	256,086
Net income (loss) before tax	243,183	(357,503)	153,607	85,947	(87,761)	37,473	56,205	93,678
Income tax (expense) benefit	77,008	(113,209)	48,642	43,056	65,987	121,484	—	121,484
Net income (loss)	166,175	(244,294)	104,965	42,891	(153,748)	(84,011)	56,205	(27,806)
US GAAP adjustments	64,800	223,718	22,812	96,694	128,094	536,118	—	—
Intersegment transactions	—	89,989	367	72,219	(134,027)	28,548	—	—
Consolidated net income (loss)	<u>230,975</u>	<u>69,413</u>	<u>128,144</u>	<u>211,804</u>	<u>(159,681)</u>	<u>480,655</u>	<u>—</u>	<u>—</u>
Segments' total assets	<u>51,603,731</u>	<u>25,508,567</u>	<u>22,783,895</u>	<u>4,226,895</u>	<u>7,542,246</u>	<u>111,665,334</u>	<u>(38,685,664)</u>	<u>72,979,670</u>

(1) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management's reporting system.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>Year ended December 31, 2000</u>	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>International Banking and Capital Markets Activities</u>	<u>Credit Card Operations</u>	<u>Other</u>	<u>Subtotal before Eliminations</u>	<u>Eliminations (1)</u>	<u>Total</u>
	(All amounts expressed in millions of Won)							
Operating income	4,966,220	2,895,907	3,946,275	1,468,041	1,474,198	14,750,641	(3,863,768)	10,886,873
Operating expense	4,440,520	2,808,893	3,739,179	1,032,343	1,542,977	13,563,912	(3,717,724)	9,846,188
Segment results	<u>525,700</u>	<u>87,014</u>	<u>207,096</u>	<u>435,698</u>	<u>(68,779)</u>	<u>1,186,729</u>	<u>(146,044)</u>	<u>1,040,685</u>
Interest income	4,732,510	2,712,582	2,055,366	984,271	424,018	10,908,747	(4,120,191)	6,788,556
Interest expense	3,594,715	1,894,394	1,837,693	477,595	444,828	8,249,225	(3,302,155)	4,947,070
Net interest income (loss)	1,137,795	818,188	217,673	506,676	(20,810)	2,659,522	(818,036)	1,841,486
Provision for loan losses	9,800	585,006	55,074	113,611	358,150	1,121,641	(205,017)	916,624
Noninterest income	233,710	183,325	1,890,909	483,770	1,050,180	3,841,894	256,423	4,098,317
Noninterest expense	772,486	313,643	1,843,785	423,368	677,463	4,030,745	(210,077)	3,820,668
Net noninterest income(loss)	(538,776)	(130,318)	47,124	60,402	372,717	(188,851)	466,500	277,649
Depreciation and Amortization	63,519	15,850	2,627	17,769	62,536	162,301	(475)	161,826
Net income (loss) before tax	525,700	87,014	207,096	435,698	(68,779)	1,186,729	(146,044)	1,040,685
Income tax (expense) benefit	161,694	26,764	63,698	135,156	71,186	458,498	(10,229)	448,269
Net income (loss)	364,006	60,250	143,398	300,542	(139,965)	728,231	(135,815)	592,416
US GAAP adjustments	117,565	210,824	78,709	24,922	(44,456)	387,564	—	—
Intersegment transactions	—	133,178	(1,228)	59,560	(379,757)	(188,247)	—	—
Consolidated net income (loss)	<u>481,571</u>	<u>404,252</u>	<u>220,879</u>	<u>385,024</u>	<u>(564,178)</u>	<u>927,548</u>	<u>—</u>	<u>—</u>
Segments' total assets	<u>66,071,618</u>	<u>31,245,884</u>	<u>27,607,258</u>	<u>8,193,594</u>	<u>7,752,421</u>	<u>140,870,775</u>	<u>(49,772,010)</u>	<u>91,098,765</u>

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(1) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management's reporting system.

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

<u>Year ended December 31, 2001</u>	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>International Banking and Capital Markets Activities</u>	<u>Credit Card Operations</u>	<u>Other</u>	<u>Subtotal before Eliminations</u>	<u>Eliminations (1)</u>	<u>Total</u>
	(All amounts expressed in millions of Won)							
Operating income	5,889,514	3,224,940	4,814,739	2,675,771	1,529,559	18,134,523	(4,172,635)	13,961,888
Operating expense	5,027,275	3,477,139	4,658,843	1,906,761	1,163,519	16,233,537	(3,507,397)	12,726,140
Segment results	<u>862,239</u>	<u>(252,199)</u>	<u>155,896</u>	<u>769,010</u>	<u>366,040</u>	<u>1,900,986</u>	<u>(665,238)</u>	<u>1,235,748</u>
Interest income	5,723,448	2,957,458	1,871,222	1,482,568	461,790	12,496,486	(4,281,742)	8,214,744
Interest expense	3,782,704	2,092,612	1,813,351	628,686	541,771	8,859,124	(3,357,507)	5,501,617
Net interest income (loss)	1,940,744	864,846	57,871	853,882	(79,981)	3,637,362	(924,235)	2,713,127
Provision for loan losses	132,793	742,175	57,832	478,906	37,528	1,449,234	(35,056)	1,414,178
Noninterest income	166,066	267,482	2,943,517	1,193,203	892,734	5,463,002	284,142	5,747,144
Noninterest expense	1,035,987	618,902	2,781,028	755,569	536,090	5,727,576	(114,780)	5,612,796
Net noninterest income (loss)	(869,921)	(351,420)	162,489	437,634	356,644	(264,574)	398,922	134,348
Depreciation and amortization	75,791	23,450	6,632	43,600	48,130	197,603	(54)	197,549
Extraordinary gain	—	—	—	—	175,035	175,035	(13,508)	161,527
Net income (loss) before tax	862,239	(252,199)	155,896	769,010	366,040	1,900,986	(503,711)	1,397,275
Income tax expense (benefit)	277,624	(81,203)	50,195	235,414	80,153	562,183	(1,783)	560,400
Net income (loss)	584,615	(170,996)	105,701	533,596	285,887	1,338,803	(501,928)	836,875
US GAAP adjustments	(25,986)	146,924	(97,241)	(173,898)	47,193	(103,008)	—	—
Intersegment transactions	49,030	188,050	(36,378)	83,572	(528,193)	(243,919)	—	—
Consolidated net income (loss)	<u>607,659</u>	<u>163,978</u>	<u>(27,918)</u>	<u>443,270</u>	<u>(195,113)</u>	<u>991,876</u>	<u>—</u>	<u>—</u>
Segments' total assets	<u>70,965,658</u>	<u>39,377,384</u>	<u>39,493,063</u>	<u>15,580,686</u>	<u>10,709,637</u>	<u>176,126,428</u>	<u>(3,527,622)</u>	<u>172,598,806</u>

(1) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under management's reporting system.

KOOKMIN BANK AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The allowance for loan losses under US GAAP for each of the segments are as follows:

	<u>Retail Banking</u>	<u>Corporate Banking</u>	<u>International Banking and Capital Markets Activities</u>	<u>Credit Card Operations</u>	<u>Other</u>	<u>Total</u>
	(All amounts expressed in millions of Won)					
As of December 31, 2000	232,060	1,681,725	124,588	156,682	198,592	2,393,647
As of December 31, 2001	329,574	2,112,388	154,553	613,895	297,173	3,507,583

Following is a reconciliation of the business segments' total assets as of December 31, 1999, 2000 and 2001 to the consolidated total assets.

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)		
Segments' total assets	111,665,334	140,870,775	176,126,428
US GAAP adjustments	(1,670,416)	(831,992)	(3,342,266)
Intersegment transactions	(38,641,348)	(49,248,237)	(4,554,209)
Consolidated total assets	<u>71,353,570</u>	<u>90,790,546</u>	<u>168,229,953</u>

Following is a reconciliation of the business segment's revenue for the years ended December 31, 1999, 2000 and 2001 to the consolidated revenue.

	<u>1999</u>	<u>2000</u>	<u>2001</u>
	(All amounts expressed in millions of Won)		
Segments' revenue	13,449,592	14,750,641	18,134,523
US GAAP adjustments	(2,322,419)	(3,105,716)	(3,285,553)
Intersegment transactions	(3,245,577)	(3,421,824)	(4,172,635)
Consolidated revenue	<u>7,881,596</u>	<u>8,223,101</u>	<u>10,676,335</u>

The adjustments presented in the tables above represent consolidated assets and revenues not specifically allocated to individual business segments.

Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

38. Trust Accounts

The Bank manages funds on behalf of its customers through the operation of various trust accounts in accordance with the *Korean Trust Law* and the *Korean Trust Business Act*. Trust assets and liabilities are excluded from the consolidated financial statements of the Bank, and thus are recorded in separate accounts from those of the banking business.

Guaranteed Principal Money Trusts require the Bank to guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Bank guarantees a specified rate of return on Guaranteed Fixed Rate Money Trusts. The Bank accrued a payable related to such guarantees in the amount of 158,325 million Won and 31,479 million Won as of December 31, 2000 and 2001, respectively. The Bank guarantees neither the principal amount nor

KOOKMIN BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

the rate of return on the Securities Investment Trusts or the No-Guarantee Money Trusts. The Bank charges investment management fees to Guaranteed Principal Money Trusts and other trusts, and receives commission income, including penalty charges for early withdrawal of fixed term deposits (see Note 35).

39. Subsequent Events

On March 19, 2002, the Bank approved the voluntary dissolution of Jooeun Industrial Co., Ltd. (“Jooeun Industrial”), a wholly owned subsidiary of the Bank. The assets and liabilities of Jooeun Industrial are in the process of being liquidated. The Bank does not anticipate the dissolution of Jooeun Industrial to have a material effect on its operations.

On February 6, 2002, the Bank’s board of directors approved the sale of its 87% ownership in Kookmin Bank Investment Trust Mgt Co., Ltd. (“KB Investment Trust”) to Landmark Investment Trust Management Holdings Ltd. The Bank does not anticipate the sale of KB Investment Trust to have a material effect on its financial position or results of operations.

KOOKMIN BANK
NON-CONSOLIDATED QUARTERLY BALANCE SHEETS
As of March 31, 2002 and 2001
(Unaudited)

	2002	2001
	(In Millions of Korean Won)	
ASSETS		
Cash and due from banks (Note 3)	₩ 6,855,966	₩ 4,047,086
Trading securities (Note 4)	6,082,450	2,915,858
Investment securities (Note 5)	26,990,901	20,631,084
Loans (Notes 6 and 7)	112,412,605	50,849,146
Fixed assets (Note 8)	2,896,041	1,263,194
Other assets (Note 9)	5,255,047	6,240,341
Total Assets	₩160,493,010	₩85,946,709
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits (Note 10)	₩119,543,871	₩58,703,412
Borrowings (Note 11)	11,481,374	7,745,707
Debentures (Note 12)	9,952,806	6,146,205
Other liabilities (Note 13)	9,762,381	8,853,109
Total Liabilities	150,740,432	81,448,433
Commitments and contingencies (Notes 15 and 17)		
Common stock, par value : ₩5,000, authorized : 1,000 million shares, issued and outstanding : 317,677,416 shares (Notes 1 and 18)	1,588,387	1,508,000
Preferred stock	—	200,000
Capital surplus (Note 19)	5,683,528	1,608,151
Retained earnings (Note 20)	2,110,672	1,126,648
Capital adjustments (Note 21)	369,991	55,477
Total Stockholders' Equity	9,752,578	4,498,276
Total Liabilities and Stockholders' Equity	₩160,493,010	₩85,946,709

The accounting notes are an integral part these non-consolidated quarterly financial statements.

KOOKMIN BANK
NON-CONSOLIDATED QUARTERLY STATEMENTS OF INCOME
for the three-month periods ended March 31, 2002 and 2001
(Unaudited)

	2002	2001
	(In Millions of Korean Won)	
Interest income:		
Interest on due from banks	₩ 13,718	₩ 52,290
Interest on trading securities	26,821	57,972
Interest on investment securities	382,135	335,143
Interest on loans	2,095,762	1,193,586
Other interest income	21,299	33,177
	2,539,735	1,672,168
Interest expenses:		
Interest on deposits	1,192,936	854,179
Interest on borrowings	112,047	114,112
Interest on debentures	177,092	137,791
Other interest expenses	14,738	13,380
	1,496,813	1,119,462
Net interest income	1,042,922	552,706
Bad debt expense (Note 7)	191,143	174,740
Net interest income after bad debt expenses	851,779	377,966
Non-interest income:		
Fees and commission income	450,464	83,114
Dividends on trading securities	230	—
Dividends on investment securities	740	429
Gain on foreign currency transactions	36,196	122,468
Gain on derivatives (Note 16)	378,730	1,096,536
Other (Note 23)	174,448	160,032
	1,040,808	1,462,579
Non-interest expenses:		
Fees and commission expenses	₩ 83,086	₩ 12,263
General and administrative expenses (Note 24)	556,323	293,887
Loss on foreign currency transactions	31,935	22,315
Loss on derivatives (Note 16)	350,493	1,165,636
Other (Note 23)	101,604	109,295
	1,123,441	1,603,396
Operating income	769,146	237,149
Non-operating income, net (Note 25)	186,293	117,902
Net income before income tax expense	955,439	355,051
Income tax expense (Note 26)	283,250	109,224
Net income	₩ 672,189	₩ 245,827
Basic earnings per share (Note 27) (in Korean Won)	₩ 2,116	₩ 1,297
Diluted earnings per share (Note 27) (in Korean Won)	₩ 2,051	₩ 1,284

The accounting notes are an integral part these non-consolidated quarterly financial statements

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS for the three-month periods ended March 31, 2002 and 2001 (Unaudited)

1. The Bank:

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

The Bank merged with Korea Long Term Credit Bank ("KLB") on March 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltds. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank ("the P&A") as of June 29, 1998. The Bank entered into a business combination contract ("the Contract") with H&CB on April 23, 2001. In accordance with the Contract, the Bank completed the legal consolidation with H&CB as of October 31, 2001 (See Note 33).

The Bank had its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former stockholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. Also, the Bank's American Depositary Shares ("ADS") were listed on New York Stock Exchange on November 1, 2001. The Bank's paid-in capital amounts to ₩1,588,387 million as of March 31, 2002 (See Note 18).

The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 1,125 domestic branches and offices (including ATMs) and 3 overseas branches as of March 31, 2002.

2. Summary of Significant Accounting Policies:

The significant accounting policies followed by the Bank in the preparation of its financial statements are summarized below.

Basis of Non-consolidated Financial Statement Presentation—

The Bank's financial statements were prepared in accordance with the financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions, as modified by the accounting and reporting guidelines prescribed by the banking regulatory authorities.

The Bank maintains its official accounting records in Korean Won and prepares statutory financial statements in the Korean language in conformity with the accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Bank that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying financial statements have been condensed, restructured and translated into English from the Korean language financial statements with certain expanded descriptions. Some information attached to the Korean language financial statements, but not required for a fair

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued) for the three-month periods ended March 31, 2002 and 2001 (Unaudited)

presentation of the Bank's financial position or results of operations is not presented in the accompanying financial statements.

The preparation of financial statements in conformity with financial accounting standards generally accepted in the Republic of Korea and the accounting standards generally accepted for banking institutions requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results may differ from those estimates.

The Bank operates both a commercial banking business and a trust business in which the Bank, as a fiduciary, holds and manages the property of others. Under the Trust Business Act, the trust funds are accounted for and reported separately from the Bank's own commercial banking business.

Recognition of Interest Income—

The Bank recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans and debt securities, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis. Accordingly, under the cash basis, unaccrued interest income amounted to ₩630,896 million and ₩464,663 million as of March 31, 2002 and 2001, respectively.

Translation of Foreign Currency—

Assets and liabilities denominated in foreign currencies are translated into Korean Won at exchange rates announced by the Korea Telecommunications and Clearings Institute at the balance sheet date. The resulting exchange gains or losses are reflected in other operating income or expenses.

The exchange rates used to translate foreign currency denominated assets and liabilities at March 31, 2002 and 2001 are ₩1,326.4 : USD \$1 and ₩1,328.0 : USD \$1, respectively.

Allowances for Loan Losses—

The Bank applies its internal credit rating system, Forward Looking Criteria ("FLC"), to corporate loans in order to classify the borrowers into 10 credit risk categories (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) and to determine allowances for loan losses. Credit risk classification under FLC is based on a scaled valuation of financial and non-financial risks with additional consideration of loan type, collateral and/or guarantees.

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

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

KOOKMIN BANK

**NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
for the three-month periods ended March 31, 2002 and 2001
(Unaudited)**

However, the Bank does not apply FLC to small-sized corporate loans and consumer loans. Alternatively, the bank classifies such loans by considering current financial status including delinquent number of days, bankruptcies and collateral value.

Present Value Discounts—

Troubled debt restructuring loans, which are modified as to outstanding principal, interest rate, and/or maturity under programs such as workout, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value if the difference between the book value and the present value of the restructured loan is significant. When estimating the present value of the loans, the Bank applies the interest rate as of the inception of the loans except for the interest rate of variable rate loans and extended maturity loans, which are adjusted to reflect the interest rate of the restructuring date. The present value discounts are recorded by reclassifying allowances for loan losses and if additional allowances need to be provided for, the additional allowances are provided and recognized as bad debt expense of the current period. These present value discounts are amortized using the effective interest method and are recognized as interest income. Allowances for loan losses on the restructured loans are provided for based on the loan balances net of present value discounts.

Additionally, the Bank recorded ₩26,688 million and ₩33,956 million of present value discounts as of March 31, 2002 and 2001, respectively, on long-term deposits placed with Bukook Mutual Savings & Finance Co., Ltd. (See Note 3), a subsidiary of the Bank sold in March 1999. Also, the receivables from disposal of foreclosed assets that are redeemed in long-term installments are recorded in the balance sheet net of the related present value discounts.

Securities—

Marketable securities held for short-term capital gain purposes, which exclude stocks issued by related parties and debt securities held to maturity, are classified as trading securities. Securities that are not classified as trading securities are classified as investment securities.

Securities are initially recorded at cost with incidental expenses added to compute the acquisition cost in applying the moving average or specific identification method. The subsequent valuation methods used for the securities are summarized as follows:

	<u>Valuation Method</u>	<u>Recognition of Unrealized Gains and Losses</u>
Trading securities	Fair value	Net income
Investment securities		
Available-for-sale securities and marketable equity securities	Fair value	Capital adjustments
Held-to-maturity securities and non-marketable equity securities	Cost	N/A
Investment in related parties	Equity	Net income, retained earnings, or capital adjustments per source of the gain or loss

If the fair value of cost-or equity-method investment securities are significantly below the book value and the impairment is determined to be other than temporary, the Bank adjusts the investment

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securities to their fair value and recognizes the related impairment losses as a part of the current period non-operating expenses.

Bonds under Repurchase/Resale Agreements—

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements.

Fixed Assets and Related Depreciation—

Property and equipment are recorded at cost, except for upward revaluation of certain assets in accordance with Korean Asset Revaluation Law. Routine maintenance and repairs are recognized as expenses as incurred. Expenditures that enhance the value or extend the useful life of the assets involved are capitalized as additions to property and equipment.

Depreciation is computed using the declining-balance method, except for buildings and structures, which are depreciated using the straight-line method. Depreciation is calculated based on the estimated average useful lives of the assets and is presented as accumulated depreciation, which is a contra account of property and equipment in the financial statements.

The estimated useful lives and depreciation methods of the property and equipment are as follows:

<u>Property and Equipment</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4 years
Machinery, equipment and vehicles	Declining balance method	4 years

Foreclosed assets acquired through, or in lieu of, loan foreclosure are stated at cost and are not depreciated. Unrealized losses, where the final bidding price at a public auction is below the book value, are recorded as valuation allowances, which is a contra account of foreclosed assets in the financial statements.

Intangible assets are amortized based on the following estimated average useful lives using the straight-line method and are presented in the financial statements net of accumulated depreciation.

<u>Intangible Asset</u>	<u>Amortization Method</u>	<u>Estimated Useful Life</u>
Goodwill	Straight-line method	9 years
Trademarks	Straight-line method	1-10 years
Other	Straight-line method	7-30 years

In relation to the business combination with H&CB, the Bank recorded excess purchase cost over the net assets of H&CB as goodwill.

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NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued) for the three-month periods ended March 31, 2002 and 2001 (Unaudited)

Stock Issuance Costs and Debenture Issuance Costs—

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

Accrued Retirement Benefits—

Employees and directors with more than one year of service as of March 31, 2002 are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Additionally, the Bank records pension fund deposits which grant the payment rights to its employees and contributions to the national pension fund as contra accounts of accrued retirement benefits.

Guarantees and Acceptances—

By applying credit risk classification used for loans to the guarantees and acceptances, the Bank records allowance for losses on outstanding guarantees and acceptances according to their classification as sub-standard, doubtful, or estimated loss (allowance rates are at minimum 20%, 50%, and 100%, respectively).

Deferred Income Taxes—

The Bank records the future tax effects of temporary differences between the financial and tax bases of assets and liabilities as deferred tax assets or liabilities. The cumulative effects of accounting changes adjust the beginning balance of retained earnings and thus result in temporary differences.

Derivatives Instruments—

The Bank records the rights and obligations arising from derivative contracts on the balance sheet as assets and liabilities based on the fair values of such rights and obligations. Resulting unrealized gains or losses are included in net income.

Stock Options—

The Bank calculates the fair value of stock options at the grant date and allocates the resulting total cost over the contractual service period. The costs allocated to the current period are charged to operating expenses and capital adjustments.

National Housing Fund—

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

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Gains and Losses on Trust Management—

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

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with guarantee of the principal or of a certain minimum rate of return. The reserves are used to provide for the losses on such trust funds and, if the losses are incurred in excess of the reserves for future losses, the excess losses are compensated by the Bank. Accordingly, the banking accounts recognize the compensation paid as a loss on trust management in other operating expenses and the trust accounts recognize the corresponding compensation as compensation from banking accounts. The Bank recorded ₩2,279 million of loss on trust management for the three-month period ended March 31, 2001.

Translation of Foreign Currency Financial Statements of Foreign Entities—

Accounting records of the overseas branches are maintained in a foreign currency prevailing in their respective countries. For presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Korea Financial Telecommunications and Clearings Institute as of March 31, 2002 and 2001.

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3. Cash and Due from Banks:

Cash and due from banks at March 31, 2002 and 2001 are summarized as follows (in millions of Won):

	2002	2001
Cash on hand		
Cash in Won	₩1,994,700	₩1,314,072
Cash in foreign currencies	145,838	83,010
	<u>2,140,538</u>	<u>1,397,082</u>
Due from banks in Won		
The Bank of Korea	Reserve deposits	3,519,089
Banks	Certificates of deposits	1,067,327
	Current accounts and other	127,510
		330,388
Other financial institutions	Cash management accounts	1,424
	Deposits at insurance companies ..	4,919
	Specified Money Trusts	102,297
	Deposits at finance companies	678,500
Other	Futures margin accounts	3,400
	Other	36,970
		140,000
		140,000
		48,715
		28,414
		1,618
		453
	<u>4,622,553</u>	<u>2,599,773</u>
Present value discounts(*1)	(26,688)	(33,956)
	<u>4,595,865</u>	<u>2,565,817</u>
Due from banks in foreign currencies(*2)		
The Bank of Korea	Reserve deposits	30,132
Domestic banks	Due from banks on demand	48,481
Foreign banks	Due from banks on demand	11,176
Other	Other deposits	23,415
		70,942
		1,458
		7,313
		10,833
	<u>119,563</u>	<u>84,187</u>
	<u>₩6,855,966</u>	<u>₩4,047,086</u>

(*1) Present value discounts are recorded in relation to the ₩140,000 million of time deposits (1% interest, six-year maturity at the point of deposit) placed with Hansol Mutual Savings & Finance Co., Ltd. on the sale of Bukook Mutual Savings & Finance Co., Ltd., formerly a subsidiary of the Bank, during 1999.

(*2) According to the amendment of related regulation, due from banks in foreign currencies was reclassified to inter-bank foreign currency loans as of October 1, 2001 when the Bank placed the foreign currency deposits with other banks for the purpose of interest income under the agreement in which the principal is withdrawn at maturity only.

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Included in cash and due from banks as of March 31, 2002 and 2001 are the following restricted deposits (in millions of Won):

	<u>2002</u>	<u>2001</u>	<u>Restrictions</u>
Reserve deposits in the Bank of Korea	₩3,519,089	₩1,067,327	General Banking Act
Deposits placed with Hansol Mutual Savings & Finance Co., Ltd	140,000	140,000	Withdrawal at maturity
Other deposits in the Kookmin Futures and Other	50,939	28,867	Guarantee deposit
Deposits at insurance companies . . .	678,500	326,700	Borrowings
Reserve Deposits in foreign currencies in the Bank of Korea . . .	30,132	48,481	General Banking Act
	<u>₩4,418,660</u>	<u>₩1,611,375</u>	

The maturities of the due from banks as of March 31, 2002 are summarized as follows (in millions of Won):

<u>At March 31, 2002</u>	<u>Due from Banks in Won</u>	<u>Due from Banks in Foreign Currencies</u>	<u>Total</u>
Due in 3 months or less	₩3,724,004	₩119,563	₩3,843,567
Due after 3 months through 6 months . .	80,049	—	80,049
Due after 6 months through 1 year	608,500	—	608,500
Due after 1 year through 2 years	—	—	—
Due after 2 years through 3 years	70,000	—	70,000
Due after 3 years through 4 years	50,000	—	50,000
Due after 4 years through 5 years	90,000	—	90,000
	<u>₩4,622,553</u>	<u>₩119,563</u>	<u>₩4,742,116</u>

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4. Trading Securities:

Trading securities as of March 31, 2002 and 2001 comprise the following (in millions of Won):

<u>Type</u>	<u>Par Value</u>	<u>Beginning Balance(*1)</u>	<u>Amortized Amount(*2)</u>	<u>Balance Sheet Amount</u>	
				<u>2002</u>	<u>2001</u>
Trading securities in Won					
Listed equity securities		₩ 50,966	₩ 50,966	₩ 61,007	₩ 18,614
Government and municipal bonds					
—Treasury bonds	₩315,800	317,790	317,312	316,815	972,046
—Public housing bonds	—	—	—	—	393,123
—Foreign exchange stabilization bonds	50,000	54,656	54,419	53,796	160,348
		<u>372,446</u>	<u>371,731</u>	<u>370,611</u>	<u>1,525,517</u>
Finance debentures					
—Monetary stabilization bond	810,000	796,722	796,465	795,139	600,110
—Other finance debentures	90,000	90,122	90,061	89,733	169,275
		<u>886,844</u>	<u>886,526</u>	<u>884,872</u>	<u>769,385</u>
Corporate bonds					
—Government guaranteed bonds	165,400	175,500	174,876	174,705	232,080
—Other corporate bonds	60,000	60,555	60,448	60,519	331,200
		<u>236,055</u>	<u>235,324</u>	<u>235,224</u>	<u>563,280</u>
Beneficiary certificates	—	4,486,560	4,486,560	4,515,516	11,452
Trading securities in foreign currencies	15,724	15,153	15,154	15,220	27,610
		<u>₩6,048,024</u>	<u>₩6,046,261</u>	<u>₩6,082,450</u>	<u>₩2,915,858</u>

(*1) Book value at December 31, 2001 or acquisition costs for the three-month period ended March 31, 2002

(*2) Amount amortized using effective interest rate method

Trading debt securities in Won are recorded at fair value using the market yield of bonds provided by the Korea Securities Dealers Association.

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NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
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Trading securities risk concentrations as of March 31, 2002 are as follows (in millions of Won):

	Securities in Won		Securities in Foreign Currencies	
	Amount	(%)	Amount	(%)
By Geography				
—Korea	₩6,067,230	100.00	₩14,603	95.95
—Argentina	—	—	617	4.05
	<u>₩6,067,230</u>	<u>100.00</u>	<u>₩15,220</u>	<u>100.00</u>
By Type				
—Fixed rate	₩1,336,148	22.02	₩ 617	4.05
—Floating rate	154,559	2.55	13,230	86.93
—Equity securities	61,007	1.01	—	—
—Beneficiary certificates	4,515,516	74.42	—	—
—Other	—	—	1,373	9.02
	<u>₩6,067,230</u>	<u>100.00</u>	<u>₩15,220</u>	<u>100.00</u>
By Industry				
—Government institutions	₩ 28,356	0.47	₩ 1,990	13.08
—Financial institutions	5,393,143	88.89	—	—
—Other	645,731	10.64	13,230	86.92
	<u>₩6,067,230</u>	<u>100.00</u>	<u>₩15,220</u>	<u>100.00</u>

The maturities of the trading securities except equity securities as of March 31, 2002 are summarized as follows (in millions of Won):

At March 31, 2002	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Foreign Currencies	Total
Due in 3 months or less	—	₩ 40,213	—	₩4,515,516	₩ 617	₩4,556,346
Due after 3 months through 6 months	—	99,562	—	—	13,230	112,792
Due after 6 months through 1 year	—	19,561	—	—	—	19,561
Due after 1 year through 2 years	₩143,152	675,598	₩89,541	—	—	908,291
Due after 2 years through 3 years	144,429	39,755	41,768	—	—	225,952
Due after 3 years through 4 years	63,342	10,183	—	—	1,373	74,898
Due after 4 years through 5 years	19,688	—	52,354	—	—	72,042
Thereafter	—	—	51,561	—	—	51,561
	<u>₩370,611</u>	<u>₩884,872</u>	<u>₩235,224</u>	<u>₩4,515,516</u>	<u>₩15,220</u>	<u>₩6,021,443</u>

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5. Investment Securities:

Investment securities at March 31, 2002 and 2001 are as follows (in millions of Won):

<u>Type</u>	<u>Balance Sheet Amount</u>	
	<u>2002</u>	<u>2001</u>
Equity securities		
—Marketable equity securities	₩ 413,725	₩ 113,930
—Non-marketable equity securities	391,485	215,628
—Domestic related parties	1,498,363	916,739
	<u>2,303,573</u>	<u>1,246,297</u>
Investment in special funds		
—Stock market stabilization fund	25,360	16,386
—Investment union fund	22,008	14,508
	<u>47,368</u>	<u>30,894</u>
Government and municipal bonds		
—Treasury bonds	2,310,462	1,574,760
—Public housing bonds	350,880	442,490
—Grain supply bonds	51,433	102,401
—Foreign exchange stabilization bonds	741,014	829,101
—Municipal bonds	78,053	182,819
	<u>3,531,842</u>	<u>3,131,571</u>
Finance debentures		
—Monetary stabilization bond	2,735,692	3,418,166
—Other finance debentures	797,596	1,186,262
	<u>3,533,288</u>	<u>4,604,428</u>
Corporate bonds		
—Government guaranteed bonds	7,673,481	6,386,253
—Other corporate bonds	4,862,606	2,076,927
	<u>12,536,087</u>	<u>8,463,180</u>
Beneficiary certificates	3,518,858	2,165,110
Securities lent	198,846	—
Other investment securities(*)	3,011	—
Securities denominated in foreign currencies		
—Overseas related parties	123,836	64,585
—Equity securities	23,458	27,725
—Debt securities	1,170,734	897,294
	<u>1,318,028</u>	<u>989,604</u>
	<u>₩26,990,901</u>	<u>₩20,631,084</u>

(*) Other investment securities include commercial paper and national stock trust.

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At March 31, 2002, the amortized amount and balance sheet amount of the Bank's investment debt securities are as follows (in millions of Won):

	<u>Par Value</u>	<u>Beginning Balance^(*)</u>	<u>Amortized Amount</u>	<u>Balance sheet Amount</u>
Available for sale				
—Government and municipal bonds	₩ 1,589,033	₩ 1,629,510	₩ 1,597,472	₩ 1,619,677
—Finance debentures	976,640	982,292	971,562	979,859
—Corporate bonds	4,130,419	3,998,006	3,965,941	3,989,147
—Securities denominated in foreign currencies	1,357,916	1,114,176	1,096,429	1,093,366
	<u>8,054,008</u>	<u>7,723,984</u>	<u>7,631,404</u>	<u>7,682,049</u>
Held to maturity				
—Government and municipal bonds	1,895,600	1,913,977	1,912,165	1,912,165
—Finance debentures	2,607,236	2,554,963	2,553,429	2,553,429
—Corporate bonds	8,447,090	8,572,633	8,546,940	8,546,940
—Securities denominated in foreign currencies	79,173	77,368	77,368	77,368
	<u>13,029,099</u>	<u>13,118,941</u>	<u>13,089,902</u>	<u>13,089,902</u>
	<u>₩21,083,107</u>	<u>₩20,842,925</u>	<u>₩20,721,306</u>	<u>₩20,771,951</u>

(*) Book value at December 31, 2001 or acquisition costs for the three-month period ended March 31, 2002.

Available-for-sale debt securities in Won are recorded at fair value using the market yield of bonds provided by the Korea Securities Dealers Association.

Government and municipal bonds sold under repurchase agreements of ₩1,822,638 million and ₩837,911 million as of March 31, 2002 and 2001, respectively, are included in the investment securities (See Note 11).

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Equity securities in related parties as of March 31, 2002 and 2001 are as follows (in millions of Won):

Issuer	Owner-ship(%)	Acquisition Cost	2001 Beginning Balance(*6)	Unrealized Gains and Losses(*7)			Balance Sheet Amount(*8)	
				NI	R/E	C/A	2002	2001
Domestic related parties								
—Kookmin Credit Card Co., Ltd.	74.27	₩ 272,274	₩ 941,947	₩107,268	₩ 117	₩3,529	₩1,052,861	₩724,013
—Kookmin Venture Capital Co., Ltd.	94.11	44,275	48,425	(4,358)	—	5,690	49,757	54,256
—Kookmin Investment Co., Ltd.(*1)	99.99	61,033	82,515	2,997	11,012	(3,909)	92,615	71,519
—Kookmin Leasing Co., Ltd.	88.66	265,939	—	—	—	—	—	—
—Kookmin Investment Trust Mgt. Co., Ltd.(*2)	87.00	31,049	33,618	973	—	—	34,591	34,152
—Kookmin Data System Co., Ltd.	99.98	7,998	12,928	61	—	—	12,989	10,524
—Kookmin Futures Co., Ltd.	99.98	19,996	23,814	943	(49)	43	24,751	21,617
—KLB Securities Co., Ltd.(*3)	36.41	10,316	—	—	—	—	—	—
—KLB Economic Research Institute(*3)	—	—	—	—	—	—	—	658
—Jooeun Leasing Co., Ltd.	85.43	52,707	51,920	(1,114)	—	—	50,806	—
—Jooeun Investment Trust Mgt. Co., Ltd.	80.00	39,015	41,886	3,477	—	—	45,363	—
—Jooeun Industrial Co., Ltd.(*4) ..	99.99	23,994	8,465	(8,465)	—	—	—	—
—Jooeun Real Estate Trust Co., Ltd.	99.99	76,103	78,538	(155)	—	—	78,383	—
—Jooeun Credit Information Co., Ltd.(*5)	50.00	4,850	5,248	(367)	—	—	4,881	—
—ING Life Co., Ltd.	20.00	21,768	24,892	(6,014)	—	—	18,878	—
—Korea Mortgage Corp.	28.22	30,628	32,488	—	—	—	32,488	—
		<u>961,945</u>	<u>1,386,684</u>	<u>95,246</u>	<u>11,080</u>	<u>5,353</u>	<u>1,498,363</u>	<u>916,739</u>
Overseas related parties								
—KB International Ltd. (London) ..	100.00	40,276	46,173	794	(53)	—	46,914	43,916
—KB Luxembourg S.A.	100.00	21,907	—	—	—	—	—	1,658
—Kookmin Singapore Ltd.(*3)	100.00	26,585	2,303	—	—	—	2,303	2,306
—Kookmin Finance Asia Ltd. (H.K)	100.00	26,522	17,209	85	—	—	17,294	16,705
—Kookmin Finance H.K Ltd.	100.00	55,925	54,475	2,850	—	—	57,325	—
		<u>171,215</u>	<u>120,160</u>	<u>3,729</u>	<u>(53)</u>	<u>—</u>	<u>123,836</u>	<u>64,585</u>
		<u>₩1,133,160</u>	<u>₩1,506,844</u>	<u>₩ 98,975</u>	<u>₩11,027</u>	<u>₩5,353</u>	<u>₩1,622,199</u>	<u>₩981,324</u>

(*1) Kookmin Investment Co., Ltd. merged with Frontier Investment Corp., effective as of December 31, 2001.

(*2) The Bank and Morgan Stanley Private Equity, the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds, entered into a memorandum of understanding related to the sale of Kookmin Investment Trust Management Co., Ltd., a subsidiary of the Bank, on January 22, 2002.

(*3) KLB Securities Co., Ltd. and Kookmin Singapore (merchant bank), Ltd. are in the process of liquidation. KLB Economic Research Institute has completed its liquidation.

(*4) Dissolution of Jooeun Industrial Co., Ltd was resolved in the general meeting of stockholders of the Company on March 19, 2002.

(*5) Jooeun Credit Information Co., Ltd. is planning for a business combination as of May 2, 2002 with KM Credit Information Co., Ltd. ("KM"), a subsidiary of Kookmin Credit Card Co., Ltd. which owns 4.9% of total shares of KM.

(*6) The beginning balance is adjusted by dividends and foreign exchange rate from the prior year's book value.

(*7) NI : Net Income, R/E : Retained Earnings, C/A : Capital Adjustments

(*8) The balance sheet amount is recorded using monthly closing information of related parties as of March 31, 2002 if possible, otherwise the most recent financial information is used.

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Equity securities, excluding equity securities in related parties, as of March 31, 2002 are as follows (in millions of Won):

<u>Issuer</u>	<u>Ownership(%)</u>	<u>2001 Beginning Balance</u>	<u>Fair value Net Asset Value(*1)</u>	<u>Balance Sheet Amount</u>
Marketable equity securities (KSE)				
—Hyundai Construction Co., Ltd.	5.98	₩ 99,967	₩109,005	₩109,005
—SK Telecom Co., Ltd.	5.59	39,576	40,503	40,503
—Ssangyong Motor Company	3.29	41,075	38,445	38,445
—Kia Motors Corp.	0.64	21,412	33,954	33,954
—Daewoo Securities Co., Ltd.	1.80	31,008	29,002	29,002
—Hankang Restructuring Fund	6.26	25,859	19,285	19,285
—INI Steel Co., Ltd.	2.05	9,854	18,735	18,735
—Shinwon Corp.	9.89	12,314	17,232	17,232
—Korea Zinc Co., Ltd.	1.94	7,306	11,288	11,288
—Samsung Electronics Co., Ltd.	0.01	8,370	11,040	11,040
—Daewoo Engineering & Construction Co., Ltd.	4.34	6,270	8,472	8,472
—Saehan Industries Inc.	19.40	7,917	7,991	7,991
—Korea Electric Power Corporation and Other		60,953	53,677	53,677
		<u>371,881</u>	<u>398,629</u>	<u>398,629</u>
Marketable equity securities (KOSDAQ)				
—Chohung Capital Co., Ltd.	9.75	4,755	6,818	6,818
—Seohan Co., Ltd.	13.39	1,201	2,186	2,186
—System's Technology Inc.	3.03	250	1,120	1,120
—Kyongnam Leasing Co., Ltd.	3.61	1,203	984	984
—Shinbo Capital Corporation	6.27	606	713	713
—Ssangyong Eng and Cons Co., Ltd.	1.14	767	689	689
—Miju Steel Mfg Co., Ltd.	7.89	645	609	609
—KT Freetel Co., Ltd.	0.01	546	592	592
—Net Secure Technology Inc. and others		2,266	1,385	1,385
		<u>12,239</u>	<u>15,096</u>	<u>15,096</u>
Non-marketable equity securities				
—Mutual Fund(*2)	11.87	140,042	140,042	140,042
—Korea Housing Guarantee Co., Ltd.	11.79	53,329	76,538	68,648
—Korea I Com Co., Ltd.	2.08	37,465	37,465	37,465
—Dongbu Electronics Co., Ltd.	6.61	30,000	27,864	30,000
—Hyundai Petrochemical Co., Ltd.	9.31	20,173	66,462	20,173
—The Korea Securities Finance Corp.	2.40	8,160	10,061	8,160
—Samsung Life Insurance Co., Ltd.	0.11	7,479	4,159	7,479
—Korea Highway Corp.	0.12	6,248	15,528	6,248
—BC Card Co., Ltd.	4.95	5,738	6,515	5,738
—Mirae Asset Securities Co., Ltd.	4.43	5,000	7,331	5,000
—Korea Asset Management Corp.	3.25	4,550	5,589	4,550
—Hanwha Investment Trust Management Co., Ltd.	11.00	3,487	3,487	3,487
—Korea Vilene Co., Ltd.	10.00	3,000	3,455	3,000
—Hyundai Home Shopping Co., Ltd.	5.96	2,680	2,123	2,680
—National Information & Credit Evaluation Inc. and others ..		48,815	28,219	48,815
		<u>376,166</u>	<u>434,838</u>	<u>391,485</u>
Foreign equity securities				
—Asia Credit Services (PTE) Ltd.	6.67	13,264	10,617	10,617
—Asia Finance and Investment Corp.	2.94	3,316	2,032	3,316
—Nanjing Kumho Tire Co., Ltd.	2.17	2,821	2,053	2,822
—Pan Asia Paper (Thailand) Co., Ltd.	6.00	3,575	1,991	1,991
—IDLC and others		4,712	7,423	4,712
		<u>27,688</u>	<u>24,116</u>	<u>23,458</u>
		<u>₩787,974</u>	<u>₩872,679</u>	<u>₩828,668</u>

(*1) Net asset value is calculated using monthly closing information of investees as of March 31, 2002 if possible, otherwise the most recent financial information is used.

(*2) Investments in mutual funds are calculated using net asset value per share provided by restructuring funds which consist of Seoul Debt—Restructuring Fund, Arirang Restructuring Fund, and Mukungwha Restructuring Fund formed to support corporate restructuring.

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Unrealized gains and losses on investment securities included in net income for the year ended March 31, 2002 are summarized as follows (in millions of Won):

	<u>Beginning Balance</u>	<u>Fair Value/Net Asset Value</u>	<u>Unrealized Gains</u>
Investment in special funds			
—Stock market stabilization fund	₩ 18,156	₩ 25,360	₩ 7,204
Beneficiary certificates			
—Special fund for corporate bonds	<u>1,732,429</u>	<u>1,752,280</u>	<u>19,851</u>
	<u>₩1,750,585</u>	<u>₩1,777,640</u>	<u>₩27,055</u>

Most of the operating assets in the funds are composed of short-term financial assets and related gains and losses are recognized in the current period as gains and losses on investment in special funds.

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Impairment losses on investment securities for the three-month period ended March 31, 2002 are as follows (in millions of Won):

	<u>Beginning Balance</u>	<u>Impairment Loss</u>	<u>March 31, 2002 Book Value</u>
Non-marketable equity securities			
—Daewoo Electronics Co., Ltd.	₩ 23,799	₩22,033	₩ 1,766
—Prochips Technology Inc.	1,322	983	339
—Kohap Corp.	962	903	59
—Chonggu Co., Ltd.	904	814	90
—Ilsung Construction Co., Ltd.	1,554	610	944
—Dong Yang Steel Pipe Co., Ltd.	1,345	604	741
—Hyundai Metal Co., Ltd.	840	437	403
—Daewoo Telecom. Ltd.	417	399	18
—Gun Young Co., Ltd.	762	320	442
—Korea Construction Development Co., Ltd.	1,183	212	971
—Jindo Corporation	118	75	43
—Monaliza Co., Ltd.	3	1	2
—Asia Credit Services (PTE) Ltd.	13,264	2,647	10,617
—Pan Asia Paper (Thailand) Co., Ltd.	3,575	1,584	1,991
	<u>50,048</u>	<u>31,622</u>	<u>18,426</u>
Debt securities denominated in foreign currencies			
—Hynix Semiconductor Inc.	992	508	484
—Daehan Global Bond Investment Ltd.	46,294	14,727	31,567
—Benpres Holding	7,547	3,402	4,145
—Hyundai Semi. America	6,632	3,980	2,652
—PT Indorayon	1,658	1,625	33
—SMM Finance	1,658	1,293	365
—PT Pelabuhan Indonesia	12,748	1,128	11,620
—PT Argo Pantes	1,657	862	795
—Amsteel Corp.	995	736	259
—PT BakrieInvestinco	796	732	64
—Sahavirya Steel Inc.	995	318	677
—Dhamala Intiutama	331	298	33
—PT Fiskaragung	199	199	—
	<u>82,502</u>	<u>29,808</u>	<u>52,694</u>
	<u>₩132,550</u>	<u>₩61,430</u>	<u>₩71,120</u>

Recovery of impairment losses on equity investment securities for the three-month period ended March, 31, 2002 is ₩15,318 million for investment in Korea Housing Guarantee Co.,Ltd. Recovery of impairment losses on debt investment securities for the period then ended is ₩2,788 million, ₩577 million and ₩103 million for investments in G Trading, Hynix Semiconductor Inc. and Hyundai Eng and Cons Co., Ltd., respectively.

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Investment securities risk concentrations as of March 31, 2002 are as follows (in millions of Won):

	Securities in Won(*)		Securities Denominated in Foreign Currencies	
	Amount	%	Amount	%
By Geography				
—Korea	₩25,474,027	100.00	₩ 791,878	60.09
—Philippines	—	—	86,526	6.56
—Malaysia	—	—	75,983	5.76
—USA	—	—	42,420	3.22
—Indonesia	—	—	32,943	2.50
—India	—	—	27,799	2.11
—South America	—	—	20,432	1.55
—Thailand	—	—	19,195	1.46
—Japan	—	—	5,724	0.43
—Other	—	—	215,128	16.32
	<u>₩25,474,027</u>	<u>100.00</u>	<u>₩1,318,028</u>	<u>100.00</u>
By Type				
—Fixed rate	₩13,152,035	51.63	₩ 279,768	21.22
—Floating rate	4,945,891	19.42	446,727	33.89
—Subordinated	1,455,415	5.71	116,252	8.82
—Convertible	50,442	0.20	277,030	21.02
—Equity securities	2,303,573	9.04	147,294	11.18
—Other	3,566,671	14.00	50,957	3.87
	<u>₩25,474,027</u>	<u>100.00</u>	<u>₩1,318,028</u>	<u>100.00</u>
By Industry				
—Governmental institutions	₩ 1,117,436	4.39	₩ 84,274	6.39
—Financial institutions	4,959,823	19.47	460,077	34.91
—Other	19,396,768	76.14	773,677	58.70
	<u>₩25,474,027</u>	<u>100.00</u>	<u>₩1,318,028</u>	<u>100.00</u>

(*) Securities lent are not included in Won securities

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The maturities of the investment securities, excluding investment equity securities, investment in special funds and securities lent, as of March 31, 2002 are summarized as follows (in millions of Won):

At March 31, 2002	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Other	Securities Denominated in Foreign Currencies	Total
Due in 3 months or less	₩ 251,347	₩1,745,963	₩ 382,190	₩1,643,390	₩2,566	₩ 88,894	₩ 4,114,350
Due after 3 months through 6 months . . .	208,777	118,021	391,709	1,738,049	—	109,028	2,565,584
Due after 6 months through 1 year	411,220	934,235	1,320,234	137,419	—	98,754	2,901,862
Due after 1 year through 2 years	1,113,691	385,258	5,918,880	—	—	190,275	7,608,104
Due after 2 years through 3 years	808,894	270,369	2,715,006	—	—	149,693	3,943,962
Due after 3 years through 4 years	528,006	79,442	1,423,831	—	—	94,712	2,125,991
Due after 4 years through 5 years	99,105	—	172,207	—	—	188,490	459,802
Thereafter	110,802	—	212,030	—	445	250,888	574,165
	<u>₩3,531,842</u>	<u>₩3,533,288</u>	<u>₩12,536,087</u>	<u>₩3,518,858</u>	<u>₩3,011</u>	<u>₩1,170,734</u>	<u>₩24,293,820</u>

Currency concentrations of investment securities as of March 31, 2002 are as follows (in millions of Won):

	Investment Securities Denominated in Foreign Currencies	
	Amount	%
USD	₩1,227,840	93.14
JPY	26,317	2.00
SFR	334	0.03
BDT	1,707	0.13
DEM	5,416	0.41
GBP	46,914	3.56
THB	2,754	0.21
PHP	510	0.04
MYR	6,005	0.46
IDR	231	0.02
	<u>₩1,318,028</u>	<u>100.00</u>

Securities lent as of March 31, 2002 are as follows (in millions of Won):

Company	Purpose	Securities	Amount
LG Engineering & Construction Co., Ltd. . . .	Collateral	Corporate bonds	₩188,575
Korea Development Corp.	Collateral	Treasury bonds	10,271
			<u>₩198,846</u>

Trading and investment securities of ₩3,606,462 million (par value) can be discounted at the Bank of Korea as of March 31, 2002.

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As of March 31, 2002, the following investment securities are pledged at various institutions (in million of Won):

Related Liability		Securities Provided	
<u>Transaction</u>	<u>Amount</u>	<u>Book Value</u>	<u>Pledge Value</u>
BOK borrowings	₩1,336,986	₩1,991,937	₩1,946,250
BOK settlements	Borrowing within credit line	348,153	339,900
Sale of non-performing loans	Borrowing within credit line	170,608	166,671
Foreign currency transactions	Borrowing within credit line	1,894	1,900
Derivatives transactions	Borrowing within credit line	79,910	82,000
Sale of RP	1,822,638	4,642,189	4,554,118
Securities acquisition	20,058	22,000	22,000
		<u>₩7,256,691</u>	<u>₩7,112,839</u>

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NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
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(Unaudited)

6. Loans:

Loans as of March 31, 2002 and 2001 are summarized as follows (in millions of Won):

<u>Account</u>	<u>Detailed Account</u>	<u>2002</u>	<u>2001</u>
Loans in Won			
Corporate loans			
—Operation loans	—General operation loans	₩ 24,265,881	₩18,031,960
	—Notes discounted	2,057,872	1,551,140
	—Overdraft accounts	652,405	337,494
	—Trading notes	779,964	592,616
	—Other operation loans	3,075,543	1,319,520
		<u>30,831,665</u>	<u>21,832,730</u>
—Facility loans	—General facility loans	3,218,422	3,224,130
	—Special purpose loans	419,930	373,984
	—Other facility loans	898,272	836,985
		<u>4,536,624</u>	<u>4,435,099</u>
		<u>35,368,289</u>	<u>26,267,829</u>
Consumer loans	—General consumer loans	36,234,515	14,787,946
	—Consumer housing loans	26,792,196	1,812,647
	—Consumer benefit loans	54,437	37,173
	—Other consumer loans	222,559	164,151
		<u>63,303,707</u>	<u>16,801,917</u>
Public loans	—Public operation loans	738,435	536,963
	—Public facility loans	55,134	40,509
		<u>793,569</u>	<u>577,472</u>
Other loans	—Employee savings loans	113,188	233,082
	—Inter-bank loans	36,027	47,876
	—Other	7,024	2,840
		<u>156,239</u>	<u>283,798</u>
		<u>₩ 99,621,804</u>	<u>₩43,931,016</u>
Loans in foreign currencies	—Domestic funding loans	₩ 1,751,922	₩ 1,756,840
	—Overseas funding loans	1,034,972	1,008,624
	—Inter-bank loans	1,173,893	1,057,890
	—Domestic usance bills	5,576	6,577
	—Government funding loans	5,073	13,244
		<u>₩ 3,971,436</u>	<u>₩ 3,843,175</u>
Bills bought in Won		56,687	59,304
Bills bought in foreign currencies		811,948	1,123,567
Payments on guarantees		123,908	244,220
Credit card accounts		5,017,210	72,168
Bonds purchased under resale agreements ("RP")		854,300	100,000
Call loans	—Call loans in Won	1,779,300	464,547
	—Call loans in foreign currencies	410,521	796,741
	—Inter-bank reconciliation funds	—	14,744
		<u>₩ 2,189,821</u>	<u>₩ 1,276,032</u>
Privately placed debentures		1,917,039	2,080,497
Loans convertible to equity securities		240,457	55,766
		<u>₩114,804,610</u>	<u>₩52,785,745</u>
Allowances for loan losses		(2,339,120)	(1,773,609)
Present value discounts		(52,885)	(162,990)
		<u>₩112,412,605</u>	<u>₩50,849,146</u>

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**NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
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Restructured loans due to commencement of workout plans or other similar restructuring programs at March 31, 2002 are as follows (in millions of Won):

	Balances before Restructuring	Settlements by issuance or grants of			Balances after Restructuring	Present Value Discounts
		Exemption	Convertible Loans(*)	Equity Securities		
Workout	₩ 696,458	₩1,099	—	₩46,302	₩649,057	₩30,590
Court receivership	189,173	—	₩66,037	17,578	105,558	18,720
Court mediation	115,085	—	—	—	115,085	3,575
	<u>₩1,000,716</u>	<u>₩1,099</u>	<u>₩66,037</u>	<u>₩63,880</u>	<u>₩869,700</u>	<u>₩52,885</u>

(*) The loans, or portions thereof, that are agreed to debt restructuring by issuance or grants of equity are separately classified as loans convertible into equity securities as of the agreement date. The loans convertible into equity securities are stated at the lower of nominal amount or the fair value of the to-be-converted equity interest. The difference between the nominal amount and the fair value of equity interest is adjusted in related allowance for loan losses. Loans convertible into equity securities to Hynix Semiconductor Inc. of ₩174,364 million and Hanchang Corp. of ₩56 million are not included in the above schedule.

The maturities of loans as of March 31, 2002 are as follows (in millions of Won):

<u>At March 31, 2002</u>	<u>Loans in Won</u>	<u>Loans in Foreign Currencies</u>	<u>Bills bought(*)</u>	<u>Credit card Accounts</u>	<u>Call loans</u>	<u>Privately Placed Debentures</u>	<u>Other</u>	<u>Total</u>
Due in 3 months or less	₩13,226,878	₩1,228,443	₩582,123	₩4,195,778	₩2,189,821	₩ 264,685	₩ 903,834	₩ 22,591,562
Due after 3 months through 6 months	11,016,988	236,222	142,749	226,587	—	296,573	48,657	11,967,776
Due after 6 months through 1 year	25,245,627	699,269	91,076	507,825	—	369,412	12,473	26,925,682
Due after 1 year through 2 years	9,991,520	382,278	22,086	18,443	—	385,941	12,612	10,812,880
Due after 2 years through 3 years	25,335,681	245,813	6,856	11,919	—	287,199	—	25,887,468
Due after 3 years through 4 years	3,015,283	115,954	23,745	7,283	—	237,803	632	3,400,700
Due after 4 years through 5 years	2,085,952	105,475	—	4,096	—	56,893	—	2,252,416
Thereafter	9,703,875	957,982	—	45,279	—	18,533	240,457	10,966,126
	<u>₩99,621,804</u>	<u>₩3,971,436</u>	<u>₩868,635</u>	<u>₩5,017,210</u>	<u>₩2,189,821</u>	<u>₩1,917,039</u>	<u>₩1,218,665</u>	<u>₩114,804,610</u>

(*) Bills bought in Won and Bills bought in foreign currencies

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Loan risk concentrations by country as of March 31, 2002 are as follows (in millions of Won):

	<u>Loans in Won</u>	<u>Loans in Foreign Currencies</u>	<u>Other</u>	<u>Total</u>	<u>Percentage(%)</u>
Korea	₩99,621,804	₩2,664,526	₩11,209,574	₩113,495,904	98.86
Southeast Asia	—	126,755	467	127,222	0.11
Russia	—	131,314	—	131,314	0.12
China	—	321,974	—	321,974	0.28
Japan	—	210,917	—	210,917	0.18
Other	—	515,950	1,329	517,279	0.45
	<u>₩99,621,804</u>	<u>₩3,971,436</u>	<u>₩11,211,370</u>	<u>₩114,804,610</u>	<u>100.00</u>

Loan risk concentrations by industry as of March 31, 2002 are as follows (in millions of Won):

	<u>Loans in Won</u>	<u>Loans in Foreign Currencies</u>	<u>Other</u>	<u>Total</u>	<u>Percentage(%)</u>
Manufacturing companies	₩14,189,758	₩1,351,560	₩ 1,580,485	₩ 17,121,803	14.91
Financial institutions	808,739	589,340	3,157,668	4,555,747	3.97
Service companies	2,950,277	972,137	73,659	3,996,073	3.48
Other	18,249,112	990,979	785,793	20,025,884	17.45
	<u>36,197,886</u>	<u>3,904,016</u>	<u>5,597,605</u>	<u>45,699,507</u>	<u>39.81</u>
Households	63,423,918	67,420	5,613,765	69,105,103	60.19
	<u>₩99,621,804</u>	<u>₩3,971,436</u>	<u>₩11,211,370</u>	<u>₩114,804,610</u>	<u>100.00</u>

Loan risk concentrations by customer as of March 31, 2002 are as follows (in millions of Won):

	<u>Loans in Won</u>	<u>Loans in Foreign Currencies</u>	<u>Other</u>	<u>Total</u>	<u>Percentage(%)</u>
Industrial loans	₩35,921,391	₩3,859,928	₩ 4,648,662	₩ 44,429,981	38.70
Household loans	63,423,918	67,420	5,613,765	69,105,103	60.19
Public and other loans	276,495	44,088	948,943	1,269,526	1.11
	<u>₩99,621,804</u>	<u>₩3,971,436</u>	<u>₩11,211,370</u>	<u>₩114,804,610</u>	<u>100.00</u>

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NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
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7. Allowances for Loan Losses:

As of March 31, 2002 and 2001, allowances for loan losses are as follows (in millions of Won):

<u>Allowance for</u>	<u>2002</u>	<u>2001</u>
Loans in Won	₩1,583,892	₩1,173,650
Loans in foreign currencies	180,920	188,430
Bills bought in Won and bills bought in foreign currencies	101,957	102,645
Payments on guarantees	77,597	119,382
Credit card accounts	160,109	361
Privately placed debentures	107,385	185,782
Loans convertible into equity securities	98,368	27
Suspense receivables	7,941	3,332
Other(*)	20,951	—
	<u>₩2,339,120</u>	<u>₩1,773,609</u>

(*) The bank provides allowances for estimated losses from repurchase of not yet repurchased loans sold to KAMCO (See Note 17).

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As of March 31, 2002, allowances for loan losses and credit risk classifications are as follows
(in millions of Won):

	<u>Normal</u>	<u>Precautionary</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Estimated Loss</u>	<u>Total</u>
Loans in Won						
Loan balance	₩ 93,292,649	₩3,647,165	₩1,919,103	₩ 592,068	₩141,899	₩ 99,592,884
Allowances	466,283	122,307	432,605	420,798	141,899	1,583,892
Percentage(%)	0.50	3.35	22.54	71.07	100.00	1.59
Loans in foreign currencies						
Loan balance	3,429,664	246,750	195,618	83,353	10,066	3,965,451
Allowances	11,279	26,691	61,708	71,176	10,066	180,920
Percentage(%)	0.33	10.82	31.55	85.39	100.00	4.56
Bills bought(*1)						
Loan balance	732,109	30,693	349	99,320	5,448	867,919
Allowances	3,661	614	70	92,164	5,448	101,957
Percentage(%)	0.50	2.00	20.00	92.80	100.00	11.57
Payments on guarantees						
Loan balance	2,302	10,948	21,417	75,919	12,426	123,012
Allowances	12	625	4,283	60,251	12,426	77,597
Percentage(%)	0.50	5.70	20.00	79.36	100.00	63.08
Credit card accounts						
Loan balance	4,681,388	137,746	8	128,204	69,844	5,017,190
Allowances	23,406	2,755	2	64,102	69,844	160,109
Percentage(%)	0.50	2.00	25.00	50.00	100.00	3.19
RP(*2)						
Loan balance	854,300	—	—	—	—	854,300
Allowances	—	—	—	—	—	—
Percentage(%)	—	—	—	—	—	—
Call loans						
Loan balance	2,189,821	—	—	—	—	2,189,821
Allowances	—	—	—	—	—	—
Percentage(%)	—	—	—	—	—	—
Privately placed debentures						
Loan balance	1,644,514	69,982	114,214	65,481	6,500	1,900,691
Allowances	8,223	6,373	26,483	59,806	6,500	107,385
Percentage(%)	0.50	9.11	23.19	91.33	100.00	5.65
Convertible loans(*3)						
Loan balance	—	174,364	—	66,093	—	240,457
Allowances	—	33,129	—	65,239	—	98,368
Percentage(%)	—	19.00	—	98.71	—	40.91
Total loans						
Loan balance	₩106,826,747	₩4,317,648	₩2,250,709	₩1,110,438	₩246,183	₩114,751,725
Allowances	512,864	192,494	525,151	833,536	246,183	2,310,228
Percentage(%)	0.48	4.46	23.33	75.06	100.00	2.01
Other allowances						28,892
Total allowances						₩ 2,339,120

The above amounts of loan balance are net of present value discounts.

(*1) Bills bought in Won and Bills bought in foreign currencies

(*2) Bonds purchased under resale agreements

(*3) Loans convertible into equity securities

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For the three-month periods ended March 31, 2002 and 2001, the allowances for loan losses changed as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Beginning Balance	₩2,271,179	₩1,826,700
Increase due to:		
Provision for loan losses	191,143	174,740
Collection of written-off loans	79,935	10,483
Troubled debt restructuring	2,615	205
Repurchase of loans sold	193	138
Other	23,410	—
	<u>297,296</u>	<u>185,566</u>
Decrease due to:		
Written-off loans	170,365	179,559
Sale of loans	35,031	—
Conversion of loans into equity securities	19,402	—
Exemption of loans	3,551	29,539
Set-off with present value discounts from troubled debt restructuring	582	15,376
Change in exchange rates and other	424	14,183
	<u>229,355</u>	<u>238,657</u>
Ending Balance	<u>₩2,339,120</u>	<u>₩1,773,609</u>

As of March 31, 2002 and 2001, the ratios of allowances for loan losses to loans are as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Loans(*)	₩114,751,725	₩54,559,354
Allowances for loan losses	2,310,228	1,770,277
Ratio(%)	<u>2.01</u>	<u>3.24</u>

(*) The above amounts of loans are net of present value discounts.

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8. Fixed Assets:

Fixed assets at March 31, 2002 and 2001 comprise the following (in millions of Won):

	2002			2001		
	Acquisition Cost	Accumulated Depreciation	Net Carrying Value	Acquisition Cost	Accumulated Depreciation	Net Carrying Value
Tangible assets						
Land	₩1,168,319	—	₩1,168,319	₩ 736,230	—	₩ 736,230
Buildings and structures . . .	802,467	₩ 94,256	708,211	510,186	₩ 79,911	430,275
Leasehold improvements . .	57,891	33,071	24,820	29,160	24,242	4,918
Equipment and vehicles	717,649	404,985	312,664	459,039	384,076	74,963
Constructions in progress . .	6,760	—	6,760	5,440	—	5,440
	<u>₩2,753,086</u>	<u>₩532,312</u>	<u>2,220,774</u>	<u>₩1,740,055</u>	<u>₩488,229</u>	<u>1,251,826</u>
Intangible assets . . .			673,058			6,275
Foreclosed assets			2,209			5,093
			<u>₩2,896,041</u>			<u>₩1,263,194</u>

In accordance with the General Banking Act, the Bank may only own business-purpose real property within its own equity capital amount.

All Bank's property and equipment, other than those personal properties valued under ₩1 million, are covered by insurance policies of ₩800,509 million and ₩522,574 million as of March 31, 2002 and 2001, respectively. All vehicles are covered by legal and general insurance policies.

Intangible assets include trademark rights, communication related utility rights, lease premiums, and goodwill due to the business combination with H&CB.

Carrying value of goodwill changed for the three-month period ended March 31, 2002 as follows (in millions of Won):

Balance as of January 1, 2002	₩692,050
Amortization	<u>(19,586)</u>
Balance as of March 31, 2002	<u>₩672,464</u>

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The total government-posted price of land for tax imposition and compensation for confiscation as of March 31, 2002 and 2001 is as follows (in millions of Won):

	<u>Book Value</u>		<u>Government-posted Price</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Lands included in tangible assets	₩1,168,319	₩976,735	₩976,735	₩611,923
Lands included in foreclosed assets	4,160	1,502	1,502	1,444
	<u>₩1,172,479</u>	<u>₩978,237</u>	<u>₩978,237</u>	<u>₩613,367</u>

9. Other Assets:

Other assets at March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Guarantee deposits paid	₩1,184,831	₩ 620,457
Accounts receivable	1,543,889	3,099,668
Accrued income	1,032,812	987,134
Payments in advance	50,565	24,721
Prepaid expenses	33,725	138,302
Deferred tax assets (Note 26)	132,902	156,995
Derivative assets (Note 16)	272,018	453,454
Unsettled exchange assets	789,196	267,974
Loans to trust accounts	192,975	296,104
Other	22,134	195,532
	<u>₩5,255,047</u>	<u>₩6,240,341</u>

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10. Deposits:

Deposits at March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>Annual Interest(%)</u>	<u>2002</u>	<u>2001</u>
Deposits in Won			
Demand deposits			
—Current deposits	—	₩ 261,710	₩ 70,693
—Household deposits	0.5	451,470	317,005
—Passbook deposits	0.5	6,891,037	1,967,368
—Temporary deposits	—	3,045,988	1,826,099
—Public fund deposits	0.5	132,528	102,344
—Other	0.5	6,321	5
		<u>10,789,054</u>	<u>4,283,514</u>
Time deposits and savings deposits			
—Time deposits	3.5~5.35	58,369,996	27,681,069
—Installment savings deposits	4.2~5.15	1,472,373	614,597
—Savings deposits for money sum	8.50	2,530	289
—Time and savings deposits for non-resident in Won	0.5~5.13	68,475	—
—General saving deposits	05.5~3.8	21,056,645	10,921,188
—Unrestricted corporate savings deposits	0.5~3.8	6,063,302	2,981,580
—Long term savings for employees	8.5~12.0	466,161	440,393
—Long term housing savings	5.65	384,909	37,003
—Long term savings for households	5.5~11.0	2,599,572	1,700,474
—Employee preferential savings deposits	5.35	2,585,157	726,119
—Housing savings deposits for employees	8.5~11.5	88	39
—Mutual installment deposits	3.5~5.25	8,044,638	5,840,835
—Housing installment deposits	4.85~5.25	4,259,080	261,548
		<u>105,372,926</u>	<u>51,205,134</u>
		<u>116,161,980</u>	<u>55,488,648</u>
Deposits in foreign currencies			
Demand deposits			
—Current deposits	0.0~2.0	44,430	20,812
—Passbook deposits	0.0~2.0	404,868	272,282
—Notice deposits	0.7~10.0	7,950	4,429
—Temporary deposits	0.0~2.0	4,433	2,728
		<u>461,681</u>	<u>300,251</u>
Time deposits and savings deposits			
—Time deposits	0.7~10.0	675,365	742,325
—Other	—	2,280	3,046
		<u>677,645</u>	<u>745,371</u>
		<u>1,139,326</u>	<u>1,045,622</u>
Certificates of deposit	3.7~4.8	2,242,565	2,169,142
		<u>₩119,543,871</u>	<u>₩58,703,412</u>

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The maturities of deposits as of March 31, 2002 are as follows (in millions of Won):

<u>At December 31, 2001</u>	<u>Deposits in Won</u>	<u>Deposits in Foreign Currencies</u>	<u>Certificates of Deposit</u>	<u>Total</u>
Due in 3 months or less	₩ 65,221,543	₩ 962,561	₩ 858,322	₩ 67,042,426
Due after 3 months through 6 months . .	14,465,971	109,955	1,280,415	15,856,341
Due after 6 months through 1 year	21,810,738	53,182	103,828	21,967,748
Due after 1 year through 2 years	8,478,193	12,242	—	8,490,435
Due after 2 years through 3 years	4,398,361	1,291	—	4,399,652
Due after 3 years through 4 years	1,144,922	95	—	1,145,017
Due after 4 years through 5 years	348,047	—	—	348,047
Thereafter	294,205	—	—	294,205
	<u>₩116,161,980</u>	<u>₩1,139,326</u>	<u>₩2,242,565</u>	<u>₩119,543,871</u>

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11. Borrowings:

Borrowings as of March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>Annual Interest(%)</u>	<u>2002</u>	<u>2001</u>
Borrowings in Won			
Borrowings from the Bank of Korea			
—Aggregate Limitation Borrowings	2.50	₩ 1,336,192	₩ 884,206
—Other	5.00	794	3,370
		<u>1,336,986</u>	<u>887,576</u>
Borrowings from the government			
—Borrowings from government fund	4.00~5.50	358,955	87,818
—Other	0.00~6.25	656,061	498,658
		<u>1,015,016</u>	<u>586,476</u>
Borrowings from banking institutions			
—Debenture funds for development of small to medium industries	4.91~9.55	377,018	176,574
—Other borrowings from domestic banks	—	—	184,605
		<u>377,018</u>	<u>361,179</u>
Borrowings from National Housing Fund	8.00	9,543	—
Borrowings from non-banking financial institutions			
—Borrowings from Korea Development Bank	2.00~5.00	6,106	439
—Subordinated borrowings	—	—	425,000
—Other finance borrowings	5.59~6.52	680,000	108,361
		<u>686,106</u>	<u>533,800</u>
Other borrowings			
—Borrowings from local governments	2.20~8.00	442,525	395,030
—Borrowings from the Small and Medium Industry Promotion Corporation	4.50~5.75	748,901	658,511
—Other	2.75~7.30	103,746	123,464
		<u>1,295,172</u>	<u>1,177,005</u>
		<u>4,719,841</u>	<u>3,546,036</u>
Borrowings denominated in foreign currencies			
Borrowings from domestic banks	6M Libor+0.75~1.4	622,104	663,560
Borrowings from small and medium industry promotion fund	6M Libor+0.23~1.15	1,650,401	674,842
Borrowings from other financial institutions	0.6~4.8	176,830	171,809
		<u>2,449,335</u>	<u>1,510,211</u>
Bonds sold under repurchase agreements	2.50~7.55	1,822,638	837,911
Bills sold	4.10~4.50	47,930	797,193
Due to the Bank of Korea denominated in foreign currencies	—	98,054	221,650
Call money			
—Call money in Won	3.50~3.85	2,032,700	654,000
—Call money in Foreign currencies	0.58~2.38	233,582	178,706
—Inter-banks reconciliation fund	—	77,294	—
		<u>2,343,576</u>	<u>832,706</u>
		<u>₩11,481,374</u>	<u>₩7,745,707</u>

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The maturities of the borrowings as of March 31, 2002 are as follows (in millions of Won):

<u>At March 31, 2002</u>	<u>Call money in Won</u>	<u>Call money in Foreign Currencies</u>	<u>Other</u>	<u>Total</u>
Due in 3 months or less	₩1,567,170	₩1,150,149	₩3,677,383	₩ 6,394,702
Due after 3 months through 6 months	125,671	244,271	573,838	943,780
Due after 6 months through 1 year	763,545	271,521	60,977	1,096,043
Due after 1 year through 2 years	576,006	309,563	—	885,569
Due after 2 years through 3 years	507,372	129,542	—	636,914
Due after 3 years through 4 years	368,145	114,369	—	482,514
Due after 4 years through 5 years	247,765	112,616	—	360,381
Thereafter	564,167	117,304	—	681,471
	<u>₩4,719,841</u>	<u>₩2,449,335</u>	<u>₩4,312,198</u>	<u>₩11,481,374</u>

12. Debentures:

Debentures as of March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>Annual Interest(%)</u>	<u>2002</u>	<u>2001</u>
Debentures in Won			
Subordinated debentures	6.69~16.00	₩3,876,041	₩1,498,702
Discounted debentures	4.12~7.45	3,363,290	1,571,292
Coupon debentures	4.75~10.48	1,076,603	190,380
Compound interest debentures	4.76~10.57	818,478	1,387,382
		<u>9,134,412</u>	<u>4,647,756</u>
Discounts on debentures		(128,780)	(65,306)
		<u>9,005,632</u>	<u>4,582,450</u>
Debentures denominated in foreign currencies			
	3.00~6M libor+1.85	952,526	1,571,250
Discounts on debentures		(5,352)	(7,495)
		<u>947,174</u>	<u>1,563,755</u>
		<u>₩9,952,806</u>	<u>₩6,146,205</u>

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As of March 31, 2002, debentures in Won comprise the following:

	<u>Issue Date</u>	<u>100 Millions of Won</u>	<u>Annual Interest(%)</u>	<u>Maturity</u>
Non-subordinated				
Fixed rate	05-28-1999	₩ 300	8.05	05-28-2002
	06-28-1999	100	7.65	06-28-2002
	07-28-1999	900	7.88	07-28-2002
	11-28-2000	2,000	7.01	11-28-2003
	12-28-2000	1,600	7.01	12-28-2004
	02-28-2001	800	5.48	02-28-2004
	05-28-2001	100	5.12	05-28-2002
	06-28-2001	3,100	5.12	06-28-2002
	06-28-2001	2,300	5.87	06-28-2004
	07-28-2001	3,000	5.12	07-28-2002
	07-28-2001	600	5.82~5.87	07-28-2004
	08-28-2001	1,900	4.85	08-28-2002
	08-28-2001	600	5.82	08-28-2004
	10-28-2001	500	4.21	10-28-2002
	07-88~03-2002	34,769	4.12~10.57	12-89~03-2009
Sold over the counter	08-89~09-2000	15	6.28~16.28	11-90~03-2005
Subordinated				
Floating rate	12-24-1997	5,723	7.75	03-31-2003
	12-29-1998	2,212	6.75	03-31-2004
	12-29-1998	883	7.75	03-31-2004
Fixed rate	12-26-1997	400	15.30	12-26-2002
	12-29-1997	1,000	16.00	01-05-2004
	06-18-1998	600	15.66	07-18-2003
	06-23-1998	1,749	15.02	11-15-2003
Sold over the counter	01-97~08-97	1,051	11.04~15.66	01-03~08-03
	03-27-2000	2,000	9.65	03-27-2005
	06-28-2000	2,540	9.04~9.10	01-28-2006
	09-27-2000	3,000	8.99	01-27-2006
	09-28-2000	1,500	8.79~8.85	01-28-2006
	11-28-2000	1,000	8.65~8.71	02-28-2006
	11-28-2000	1,620	9.57~9.65	11-28-2010
	12-27-2000	2,000	8.71	01-27-2006
	05-28-2001	2,000	7.60~7.65	02-28-2007
	06-27-2001	1,600	7.68	03-27-2008
	06-27-2001	2,175	7.86	03-27-2009
	08-28-2001	1,000	6.69~6.73	08-28-2007
	09-28-2001	1,500	6.69~6.73	03-28-2008
	03-27-2002	1,966	7.10	01-27-2008
	03-27-2002	451	7.06	01-27-2008
Housing debentures	12-31-1997	520	7.75	03-31-2003
	12-31-1998	270	6.75	03-31-2004
		₩91,344		

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As of March 31, 2002, debentures denominated in foreign currencies comprise the following:

	<u>Issue Date</u>	<u>Thousands of Dollar</u>	<u>Annual Interest(%)</u>	<u>Maturity</u>	<u>Listings</u>
Non-subordinated					
Floating rate	10-30-1997	USD 33,340	6M Libor+1.20	10-30-2002	London
	04-10-2000	USD 61,500	6M Libor+0.95	04-10-2003	Not listed
	04-10-2000	USD 40,000	6M Libor+1.15	04-10-2003	Not listed
	09-19-1997	USD 100,000	6M Libor+0.79	09-19-2002	Not listed
	06-02-2000	USD 10,000	6M Libor+1.30	06-02-2003	Not listed
	08-10-2000	USD 16,500	6M Libor+0.75	08-12-2002	Not listed
	08-10-2000	USD 12,500	6M Libor+0.90	08-11-2003	Not listed
Fixed rate	04-20-2000	SGD 100,000	5.00	04-20-2003	Not listed
Subordinated					
Floating rate	12-30-1996	USD 190,000	6M L+0.6~1.85	12-30-2006	Luxembourg
Convertible bond ("CB")	06-14-1999	<u>USD 200,000</u>	3.00	06-14-2005	Not listed
USD Equivalent (in thousands of USD)		<u>USD 718,129</u>			
KRW Equivalent (in millions of Won)		<u>₩ 952,526</u>			

The Bank is authorized by the banking supervisory regulation to issue debentures amounting up to 300% of its equity. However, the issuance of new debentures for the repayment of the debentures from KLB, succeeded from the merger with KLB, on December 31, 1998, are excluded from the 300% of equity restrictions that would apply to other debenture issuances.

Among the debentures in foreign currencies, the subordinated debenture series issued during 1996 have annual call redemption options which can be exercised on or after 5 years from the issuance dates.

USD 10,000 thousand of the Bank's own debentures in foreign currencies reacquired by the Bank are deducted from debentures series issued on March 30, 1996.

As of March 31, 2002 the conversion terms of the subordinated convertible bonds outstanding in the debentures in foreign currencies are as follows:

	<u>Fixed Rate Subordinated CB</u>
Face value	USD200,000,000
Issue price	USD200,000,000
Book value as of March 31, 2002	KRW265,280,000,000
Conversion price	₩22,124 per share
Conversion stock	Common stock
Convertible period	July 14, 1999~May 14, 2005
Conversion exchange rate	USD 1: ₩1,170.50
Method of redemption	Fully redeemed at maturity

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The maturities of debentures as of March 31, 2002 are as follows (in millions of Won):

<u>At March 31, 2002</u>	<u>Won</u>	<u>Foreign Currencies</u>	<u>Total</u>
Due in 3 months or less	₩ 708,653	—	₩ 708,653
Due after 3 months through 6 months	838,818	₩154,526	993,344
Due after 6 months through 1 year	3,342,732	44,221	3,386,953
Due after 1 year through 2 years . .	1,105,214	236,483	1,341,697
Due after 2 years through 3 years	619,155	—	619,155
Due after 3 years through 4 years	1,141,105	265,280	1,406,385
Due after 4 years through 5 years	420,571	252,016	672,587
Thereafter	958,164	—	958,164
	<u>₩9,134,412</u>	<u>₩952,526</u>	<u>₩10,086,938</u>

13. Other Liabilities:

Other liabilities at March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Accrued retirement benefits (Note 14)	₩ 37,855	₩ 488,069
Allowance for loss on acceptances and guarantees (Note 15)	72,617	16,722
Due to trust accounts	1,548,921	726,112
Accounts payable	1,372,690	3,276,481
Accrued expenses	4,620,299	2,350,208
Advance from customers	119,161	24,319
Unearned income	142,853	137,451
Withholding taxes	84,272	97,362
Guarantee deposits received	156,212	80,344
Derivative liabilities (Note 16)	209,235	582,035
Unsettled domestic exchange transaction	594,932	161,562
Due to agencies	347,707	833,557
Other allowances(*)	10,458	—
Giro accounts	312,138	58,409
Other	133,031	20,478
	<u>₩9,762,381</u>	<u>₩8,853,109</u>

(*) The Bank provided other allowances for the possible losses in relation to the combination with H&CB overseas branches.

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14. Accrued Retirement Benefits:

The movements in accrued retirement benefits for the three-month period ended March 31, 2002 are as follows (in millions of Won):

	<u>Beginning Balance</u>	<u>Amounts Provided</u>	<u>Amounts Paid Out</u>	<u>Ending Balance</u>
Retained retirement benefits	₩21,973	₩20,227	₩4,314	₩37,886
Contributed retirement benefits	28,414	—	39	28,375
Total accrued retirement benefits	<u>50,387</u>	<u>20,227</u>	<u>4,353</u>	<u>66,261</u>
Contribution to National Pension Fund . . .	(33)	—	(2)	(31)
Contribution to pension funds	<u>(28,414)</u>	<u>—</u>	<u>(39)</u>	<u>(28,375)</u>
	<u>₩21,940</u>	<u>₩20,227</u>	<u>₩4,312</u>	<u>₩37,855</u>

Contributed retirement benefits are approximately 42.82% of total accrued retirement benefits as of March, 31, 2002. The contributed retirement benefits comprise balances with Korea Life Insurance Co., Ltd. and one other life insurance company for the pension fund deposits that grant the payment rights to its employees.

15. Guarantees and Acceptances:

Guarantees and acceptances at March 31, 2002 and 2001 are summarized as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Guarantees and acceptances outstanding		
Guarantees and acceptances in Won		
—Guarantees on debentures	₩ 6,069	₩ 5,499
—Guarantees on loan collateral	43,974	40,815
—Guarantees on commercial bills	490	25
—Other	<u>222,809</u>	<u>240,244</u>
	<u>273,342</u>	<u>286,583</u>
Guarantees and acceptances in foreign currencies		
—Acceptances on letters of credit	2,823,100	2,015,933
—Acceptances for letters of guarantee for importers	74,995	70,253
—Guarantees for performance	96,253	20,451
—Guarantees for bid	3,731	212
—Guarantees for borrowings	27,707	30,751
—Guarantees for repayment of advances	25,544	125
—Other	<u>522,849</u>	<u>720,892</u>
	<u>3,574,179</u>	<u>2,858,617</u>
Contingent guarantees and acceptances	<u>3,847,521</u>	<u>3,145,200</u>
—Letters of Credit	1,385,816	1,257,434
—Other	<u>138,899</u>	<u>188,802</u>
	<u>1,524,715</u>	<u>1,446,236</u>
	<u>₩5,372,236</u>	<u>₩4,591,436</u>

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At March 31, 2002 the allowances for losses from guarantees and acceptances outstanding according to credit risk classifications are as follows (in millions of Won):

	<u>Normal</u>	<u>Precautionary</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Estimated Loss</u>	<u>Total</u>
Guarantees and acceptances in Won						
Balance	₩ 257,034	₩ 13,432	₩ 2,861	₩ 15	—	₩ 273,342
Allowance	—	—	572	8	—	580
Ratio(%)	—	—	20.00	53.33	—	0.21
Guarantees and acceptances in foreign currencies						
Balance	3,360,910	116,259	22,314	59,439	₩15,257	3,574,179
Allowance	—	—	4,463	52,317	15,257	72,037
Ratio(%)	—	—	20.00	88.02	100.00	2.02
Total						
Balance	₩3,617,944	₩129,691	₩25,175	₩59,454	₩15,257	₩3,847,521
Allowance	—	—	5,035	52,325	15,257	72,617
Ratio(%)	—	—	20.00	88.01	100.00	1.89

The allowance ratios to guarantees and acceptances outstanding as of March 31, 2002 and 2001 are as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Guarantees and acceptances outstanding	₩3,847,521	₩3,145,200
Allowances for losses from guarantees and acceptances outstanding	72,617	16,722
Ratio(%)	1.89	0.53

For the three-month period ended March 31, 2002 and 2001, the allowances for losses from guarantees and acceptances outstanding changed as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Beginning balance	₩43,823	₩37,331
Additional allowance	28,784	—
Reversal of allowance	—	20,609
Changes in foreign exchange rates	10	—
Ending balance	₩72,617	₩16,722

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The guarantees and acceptances risk concentration by country as of March 31, 2002 are as follows (in millions of Won):

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage(%)	Balance	Percentage(%)	Balance	Percentage(%)
Korea	₩3,847,473	99.999	₩1,524,715	100.00	₩5,372,188	100.00
Other	48	0.001	—	—	48	—
	<u>₩3,847,521</u>	<u>100.00</u>	<u>₩1,524,715</u>	<u>100.00</u>	<u>₩5,372,236</u>	<u>100.00</u>

The guarantees and acceptances risk concentration by industry as of March 31, 2002 are as follows (in millions of Won):

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage(%)	Balance	Percentage(%)	Balance	Percentage(%)
Manufacturing . .	₩2,271,249	59.03	₩ 814,103	53.39	₩3,085,352	57.43
Finance	306,397	7.96	13,163	0.86	319,560	5.95
Wholesale & retail	226,909	5.90	284,912	18.69	511,821	9.53
Other	1,042,966	27.11	412,537	27.06	1,455,503	27.09
	<u>₩3,847,521</u>	<u>100.00</u>	<u>₩1,524,715</u>	<u>100.00</u>	<u>₩5,372,236</u>	<u>100.00</u>

The guarantees and acceptances risk concentration by customer as of March 31, 2002 are as follows (in millions of Won):

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage(%)	Balance	Percentage(%)	Balance	Percentage(%)
Industrial	₩3,795,270	98.64	₩1,524,715	100.00	₩5,319,985	99.03
Public and other	52,251	1.36	—	—	52,251	0.97
	<u>₩3,847,521</u>	<u>100.00</u>	<u>₩1,524,715</u>	<u>100.00</u>	<u>₩5,372,236</u>	<u>100.00</u>

Credit related derivatives included in the other foreign currency guarantees are as follows (in thousands of US Dollars):

	Counter-party	Guaranteeing Asset	Guarantee Amounts
Credit Default Swap	Morgan Guarantee Trust	Green Cross convertible bonds	USD 7,000
Credit Linked Note	Macquarie Bank	Korea Development Bank FRN	20,000
			<u>USD27,000</u>

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16. Derivatives:

The Bank's derivative instruments are divided between hedge derivatives and trading derivatives based on the purpose of the transaction. The Bank enters into hedge transactions mainly for the purposes of hedging fair value risks related to its assets. Trading derivatives include future contracts, forward contracts, swaps, and options entered into by the Bank to gain profit from short-term fluctuations of the underlying variable of the instruments. Also, trading derivatives include those with the Bank's customers and the related hedging derivatives.

Counter-parties of these hedge derivatives are mainly foreign financial institutions except for Korea Development Bank. Some hedge purpose transactions do not qualify for hedge accounting and are thus accounted for as trading derivatives. These transactions include the hedge relationships where the hedged item is an asset or liability that is remeasured with the changes in fair value attributable to the hedged risk reported currently in earnings or where the hedged item cannot be specifically identified.

The notional amounts outstanding for derivative contracts as of March 31, 2002 and 2001 are as follows (in millions of Won):

	Notional Amounts					
	2002			2001		
	Trading	Hedge	Total	Trading	Hedge	Total
Currency related						
—Forward	₩10,420,914	—	₩10,420,914	₩10,234,338	—	₩10,234,338
—Swap	3,148,466	—	3,148,466	1,049,546	₩ 36,621	1,086,167
—Futures	847,901	—	847,901	833,718	—	833,718
—Option						
bought	111,418	—	111,418	40	—	40
—Option						
sold	149,883	—	149,883	40	—	40
	<u>14,678,582</u>	<u>—</u>	<u>14,678,582</u>	<u>12,117,682</u>	<u>36,621</u>	<u>12,154,303</u>
Interest related						
—Forward	—	—	—	20,000	—	20,000
—Swap	19,683,304	₩278,544	19,961,848	5,079,320	610,251	5,689,571
—Futures	451,826	—	451,826	266,971	—	266,971
	<u>20,135,130</u>	<u>278,544</u>	<u>20,413,674</u>	<u>5,366,291</u>	<u>610,251</u>	<u>5,976,542</u>
Other	24,885	—	24,885	1,890	—	1,890
	<u>₩34,838,597</u>	<u>₩278,544</u>	<u>₩35,117,141</u>	<u>₩17,485,863</u>	<u>₩646,872</u>	<u>₩18,132,735</u>

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Gain on derivatives and loss on derivatives are as follows (in millions of Won):

	<u>2002</u>	<u>2001</u>
Gain on derivatives		
—Gain on derivatives transactions	₩250,703	₩ 890,588
—Gain on valuation of derivatives	127,939	199,594
—Gain on fair value hedged items	88	6,354
	<u>₩378,730</u>	<u>₩1,096,536</u>
Loss on derivatives		
—Loss on derivatives transactions	₩223,670	₩ 863,816
—Loss on valuation of derivatives	124,881	301,820
—Loss on fair value hedged items	1,942	—
	<u>₩350,493</u>	<u>₩1,165,636</u>

Derivative valuation gains and losses for the three-month period ended March 31, 2002 is as follows (in millions of Won):

	<u>Valuation Gains(P/L)</u>			<u>Valuation Losses (P/L)</u>		
	<u>Trading</u>	<u>Hedge</u>	<u>Total</u>	<u>Trading</u>	<u>Hedge</u>	<u>Total</u>
Currency related						
—Forward	₩ 23,578	—	₩ 23,578	₩ 28,574	—	₩ 28,574
—Swap	16,863	—	16,863	14,919	—	14,919
—Option						
bought	575	—	575	366	—	366
—Option sold	662	—	662	929	—	929
	<u>41,678</u>	<u>—</u>	<u>41,678</u>	<u>44,788</u>	<u>—</u>	<u>44,788</u>
Interest related	40,855	₩ 88	40,943	33,062	₩1,942	35,004
Other	45,318	—	45,318	45,089	—	45,089
	<u>₩127,851</u>	<u>₩ 88</u>	<u>₩127,939</u>	<u>₩122,939</u>	<u>₩1,942</u>	<u>₩124,881</u>

	<u>Fair Value (B/S)</u>	
	<u>Asset</u>	<u>Liability</u>
Currency related		
—Forward	₩ 53,414	₩ 51,170
—Swap	145,253	70,562
—Option		
bought	591	337
—Option sold	598	1,113
	<u>199,856</u>	<u>123,182</u>
Interest related	71,565	86,053
Other	597	—
	<u>₩272,018</u>	<u>₩209,235</u>

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17. Commitments and Contingencies:

As of March 31, 2002, 214 pending legal actions against the Bank amounting to ₩88,835 million are charged against the Bank and the Bank charged 141 pending legal actions amounting to ₩221,874 million. Management believes that these actions are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

The Bank has credit line and commitments to purchase commercial paper with asset securitization companies. Under these commitments, the Bank provides money, in case of temporary fund shortage, for the principal and interest repayment of these companies' senior bonds within the contracted term and amounts. As of March 31, 2002, the aggregate committed credit line amount totals ₩3,815,400 million and ₩55,740 million is outstanding under these commitments. Also, the Bank entered into arrangements to purchase ₩366,000 million of commercial paper issued by the securitization companies. The Bank has arranged various methods to provide for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash retention.

Pursuant to asset securitization plans, the Bank previously sold loans to ABS Specialty Companies Ltd before last fiscal year. The related contracts for asset securitization stipulate the Bank's performance of warranty liability for loans sold to Kook 6th-ABS Specialty Co., Ltd, Jooeun 4th-ABS Specialty Co., Ltd., and Jooeun 5th-ABS Specialty Co., Ltd. (collectively "Specialty Co.") when underlying loans are delinquent for certain period of time or go into default. Accordingly, the Bank bears possible liabilities for collateral performance toward the Specialty Co. within the limits of ₩72,000 million, ₩23,382 million, and ₩66,500 million, respectively, as of March 31, 2002. No adjustments have been made in the accompanying financial statements related to such uncertainties.

As of March 31, 2002, the Bank provides an allowance of ₩20,951 million for estimated losses from repurchase of not yet repurchased loans sold to KAMCO. (See Note 7).

The Bank, under the Mutual Savings & Finance Company Act, is liable for the payment of the deposits of Orange Mutual Savings & Finance Co., Ltd. and Bukook Mutual Savings & Finance Co., Ltd., previously the Bank's subsidiaries but which were sold during 1999, if they enter into bankruptcy within 3 years of sale. The payment liability is limited to the deposit amounts as of the date of sale. As of March 31, 2002, Orange Mutual Savings & Finance Co., Ltd. is under suspended operations and the customers' deposits were paid out by the KDIC under the Depositor Protection Act. The Bank estimates the maximum loss of ₩11,529 million in relation to the advanced payments to customers by KDIC. No adjustments have been made in the accompanying financial statements related to such uncertainties.

As of March 31, 2002 and 2001, the Bank holds the unexpired rights to claim from borrowers or guarantors for loans in accordance with relevant law, which already has been written off, of ₩2,555,424 million and ₩1,191,904 million, respectively.

As of March 31, 2002 and 2001, the Bank holds the endorsed bills of ₩34,633 million and ₩16,477 million, respectively.

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During 1996, the Bank entered into a guarantee contract (total return swap) with Morgan Guarantee Trust Company of New York (“Morgan”) for the payment of principal and interest on the USD 56 million FRN (“the FRN”) issued to Morgan by Daehan Global Bond II Investment Ltd. (“the Fund”). The principal and interest of the Fund’s major investment were not fully redeemed at its maturity on December 17, 2001, due to the default notice received on the Argentina portion of the Fund’s investment in synthetic emerging markets bonds. Due to the resulting default on the Fund’s repayment obligation on the FRN, the Bank paid out ₩76,011 million of principal and interest on the FRN to Morgan according to the guarantee contract. The Bank acquired the FRN of USD \$56 million issued by the Fund for the payment of ₩76,011 million and recorded it as investment securities.

Based on the letter of commitment issued by Daehan Investment Trust Co., Ltd., the security agreement with the Fund, and the legal opinion of Bank’s lawyers, the Bank impaired ₩14,727 million for the ₩46,294 million of total receivables from the Fund.

Beginning in 1997, Korea and other countries in the Asia Pacific region experienced a severe contraction in substantially all aspects of their economies. This situation is commonly referred to as the 1997 Asian financial crisis. In response to this situation, the Korean government and the private sector began implementing structural reforms to historical business practices. The Korean economy continues to experience difficulties, particularly in the areas of restructuring private enterprises and reforming the banking industry. The Korean government continues to apply pressure to Korean companies to restructure into more efficient and profitable firms. The banking industry is currently undergoing consolidation and the Bank may be either directly or indirectly affected by the situation described above. The ultimate effect of these significant uncertainties of the financial position of the Bank as of the balance sheet date cannot presently be determined and accordingly, no adjustments have been made in the accompanying financial statements related to such uncertainties.

Under these adverse economic conditions, certain financially troubled borrowers of the Bank including Hynix Semiconductor Inc. are experiencing a cash crisis or in the debt restructuring process under workout plans and other similar programs. As of March 31, 2002, the Bank’s loans, securities, and guarantees and acceptances to those borrowers are as follows (in millions of Won):

<u>Borrowers</u>	Loans (including guarantees and acceptances)				
	<u>Outstanding Balance</u>	<u>Present Value Discounts</u>	<u>Allowances</u>	<u>Net Book Value</u>	<u>Securities Held</u>
Kohap Corp.	₩ 331,892	₩15,603	₩211,529	₩ 104,760	₩ 60
Hynix Semiconductor Inc	174,364	—	33,129	141,235	13,147
Daewoo Electronics Co., Ltd . . .	102,512	3,069	98,184	1,259	1,767
SsangYong Motor Co., Ltd	103,984	297	51,141	52,546	38,445
Daewoo Motor Co., Ltd	57,872	—	52,017	5,855	—
Kabul	55,775	2,382	42,816	10,577	88
Tongkook Corp	51,488	420	39,202	11,866	—
Dae-A Express Shipping	49,285	2,577	8,875	37,833	—
Grand Department Store	40,377	—	808	39,569	—
Midopa	33,947	4,218	5,946	23,783	—
Other	1,399,218	24,319	425,795	949,104	290,556
	<u>₩2,400,714</u>	<u>₩52,885</u>	<u>₩969,442</u>	<u>₩1,378,387</u>	<u>₩344,063</u>

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18. Capital Stock:

As of March 31, 2002, the Bank has 1,000,000,000 common shares (par value : ₩5,000) authorized and 317,677,416 shares issued. ING Insurance International B.V., Goldman Sachs Capital Koryo, L.P., and the Korean government own 4.00%, 6.16%, and 9.09%, respectively, of the total issued shares. Among the issued shares, 26,510,715 common shares equivalent to 8.35% of the total issued shares are listed on the New York Stock Exchange as American Depositary Shares (“ADS”) and are managed by Bank of New York, a trustee of the Bank. Under the General Banking Act, if one single entity, other than the government or a foreign investor, owns more than 4% of total outstanding voting shares, the entity’s voting rights are limited to those of 4% stockholders.

As a result of the business combination with H&CB, stockholders of the Bank and H&CB, who are listed on the Register of Stockholders at October 31, 2001, received 179,775,233 new shares and 119,922,229 new shares of the Bank, respectively, at the exchange ratio of 1 new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB.

The bank is authorized to issue to non-stockholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of ₩2,500 billion and ₩500 billion, respectively. At March 31, 2002, the Bank’s subordinated foreign currency convertible bonds outstanding are ₩265,280 million (equivalent of USD 200 million, 10,581,269 shares at March 31, 2002) issued to Goldman Sachs Capital Koryo, L.P. during 1999 (See Note 12).

19. Capital Surplus:

Capital surplus as of March 31, 2002 and 2001 comprises the following (in millions of Won):

	2002	2001
Paid-in capital in excess of par value	₩5,106,815	₩1,031,862
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Other	1,815	1,391
	₩5,683,528	₩1,608,151

The movements in capital surplus for the three-month period ended March 31, 2002 are as follows (in millions of Won):

	Beginning Balance	Increase	Decrease(*)	Ending Balance
Paid-in capital in excess of par value	₩5,107,251	—	₩436	₩5,106,815
Gain on business combination	397,669	—	—	397,669
Revaluation increment	177,229	—	—	177,229
Other	1,815	—	—	1,815
	₩5,683,964	—	₩436	₩5,683,528

(*) Decreases in paid-in capital in excess of par value are due to stock issuing costs (See Note 22)

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20. Retained Earnings:

Retained earnings as of March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Legal reserve(*1)	₩ 413,740	₩ 339,640
Reserve for business rationalization(*2)	40,760	39,760
Special reserves	960,700	480,700
Other reserves(*3)	7,138	14,863
Unappropriated retained earnings	688,334	251,685
	<u>₩2,110,672</u>	<u>₩1,126,648</u>

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

(*2) Pursuant to the Tax Exemption and Reduction Control Law, the Bank is required to appropriate, as a reserve for business rationalization, amounts equal to tax reductions arising from tax exemptions and tax credits. This reserve is not available for the payment of cash dividends, but may be transferred to capital stock or used to reduce accumulated deficits, if any.

(*3) At March 31, 2002 and 2001, other reserves comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Reserves for overseas investment losses	₩5,417	₩13,900
Other reserves	1,721	963
	<u>₩7,138</u>	<u>₩14,863</u>

Pursuant to the Tax Exemption and Reduction Control Law, the Bank appropriates reserves for overseas investment losses. Other reserves are those appropriated for the operations of overseas branches.

21. Capital Adjustments:

As of March 31, 2002 and 2001, capital adjustments comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Treasury stocks	₩ (1,363)	₩(80,457)
Unissued stock dividends	—	—
Unrealized gain on investment securities	341,368	135,341
Employee stock options (See Note 22)	29,986	593
	<u>₩369,991</u>	<u>₩ 55,477</u>

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The movements in capital adjustments for year ended March 31, 2002 are as follows (in millions of Won):

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Treasury stocks	₩ (1,363)	—	—	₩ (1,363)
Unissued stock dividends	89,900	—	₩ 89,900	—
Unrealized gain/loss on investment securities	189,058	₩186,550	34,240	341,368
Employee stock options	26,021	3,965	—	29,986
	<u>₩303,616</u>	<u>₩190,515</u>	<u>₩124,140</u>	<u>₩369,991</u>

Increases in employee stock options is due to ₩3,965 million of compensation cost recognized for the three-month period ended March 31, 2002.

22. Employee Stock Options:

The Bank, under the approval of Board of Directors, granted stock options to its executives on March 18, 2000, March 15, 2001, and November 16, 2001. In addition, the stock options of H&CB, which were granted on October 31, 1998, February 27, 1999, February 28, 2000, and March 24, 2001, were transferred to the Bank as a result of the business combination with H&CB. The details of the stock options in effect as of March 31, 2002 are as follows:

Grant date	<u>Stock options transferred from H&CB</u>							
	(*1)March 18, 2000	(*1)March 15, 2001	Oct. 31, 1998	Feb. 27, 1999	Feb. 28, 2000	March 24, 2001	(*2)Nov. 16, 2001	(*3)March. 22, 2002
Shares granted	222,094	214,975	400,000	280,000	267,000	111,000	650,000	622,000
Share expired to date	109,565	16,882	—	59,892	55,617	21,173	—	—
Shares exercised	—	—	10,000	—	—	—	—	—
Shares outstanding	112,529	198,093	390,000	220,108	211,383	89,827	650,000	622,000
Exercise method	The Bank's choice of issuance or net settlement							
Exercise price	₩23,469	₩28,027	₩5,000	₩13,900	₩27,600	₩25,100	₩51,200	₩57,100
Exercise period	March 19, 2003~ March 18, 2005	March 16, 2004~ March 15, 2009	Nov. 1, 2001~ Oct. 31, 2004	Feb.28, 2002~ Feb. 27, 2005	March 1, 2003~ Feb. 28, 2006	March 25, 2004~ March 24, 2007	Nov.17, 2004~ Nov. 16, 2009	March 23, 2005~ March 22, 2010

(*1) Stock options granted before the business combination, shares expired and shares granted as of March 31, 2002 are adjusted based on a predetermined stock exchange ratio in the business combination with H&CB.

(*2) The number of shares granted on November 16, 2001 does not include the shares which will be additionally granted within the range of 200,000 shares if three-month weighted average stock price of the Bank right before exercise is higher than that of any other listed bank. And the exercise price can be affected by the fluctuation of the stock price index of banking industry.

(*3) The exercise price for the shares granted to internal auditors and outside the company directors can be affected by the fluctuation of the stock price index of banking industry.

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The Bank calculated the compensation costs using the fair value method and the details are as follows:

Grant date	Stock options transferred from H&CB							
	March 18, 2000	March 15, 2001	(*1) Oct. 31, 1998	Feb. 27, 1999	Feb. 28, 2000	March 24, 2001	Nov. 16, 2001	March 22, 2002
Market price on grant date	₩21,442	₩25,156	—	₩33,750	₩33,750	₩33,750	₩45,800	₩58,000
Risk-free interest rate	9.325%	6.06%	—	4.743%	4.743%	4.743%	4.9096%	6.1361%
Expected exercise period	4 years	5.5 years	—	3 years	3 years	3 years	3 years	3 years
Expected share price volatility	71.143%	70.301%	—	73.295%	73.295%	73.295%	58.902%	53.560%
Expected dividend rate	2.25%	2.47%	—	1.926%	1.926%	1.926%	1.42%	1.42%
Compensation cost per share	₩12,638	₩15,987	₩55,500	₩19,850	₩13,320	₩17,117	₩20,086	₩24,496
Total compensation cost(*2)	₩ 1,422	₩ 3,167	₩20,134	₩ 4,369	₩ 2,816	₩ 1,537	₩13,056	₩15,236
Recognized compensation cost(*2)	₩ 948	₩ 1,056	₩19,695	₩ 4,369	₩ 1,956	₩ 512	₩ 1,451	—
Exercised compensation(*2)	—	—	₩ 439	—	—	—	—	—

(*1) The compensation cost of shares granted on October 31, 1998 is to be determined annually by multiplying the difference between exercise price and market value at balance sheet date by number of shares granted.

(*2) in millions of Won

The compensation costs to be recognized in the future are as follows (in millions of Won):

	Stock options transferred from H&CB								
	March 18, 2000	March 15, 2001	Oct. 31, 1998	Feb. 27, 1999	Feb. 28, 2000	March 24, 2001	Nov. 16, 2001	March 22, 2002	Total
Within 1 year	₩474	₩1,056	—	—	₩860	₩ 512	₩ 4,352	₩ 3,809	₩11,063
Within 2 years	—	1,055	—	—	—	513	4,352	5,079	10,999
Within 3 years	—	—	—	—	—	—	2,901	6,348	9,249
	<u>₩474</u>	<u>₩2,111</u>	<u>—</u>	<u>—</u>	<u>₩860</u>	<u>₩1,025</u>	<u>₩11,605</u>	<u>₩15,236</u>	<u>₩31,311</u>

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23. Other Non-interest Income (Expenses):

Other non-interest income (expenses) for the three-month period ended March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Other non-interest income:		
—Realized gain on trading securities	₩ 28,577	₩ 75,544
—Unrealized gain on trading securities	36,195	—
—Gain on trust management	109,676	63,879
—Reversal of allowance for losses on acceptances and guarantees . . .	—	20,609
	<u>₩174,448</u>	<u>₩160,032</u>
Other non-interest expenses:		
—Realized loss on trading securities	₩ 6,031	₩ 50,545
—Unrealized loss on trading securities	6	24,742
—Contributions to special funds	34,119	18,623
—Loss form guarantees and acceptances	28,784	—
—Loss on trust management	—	2,279
—Other	32,664	13,106
	<u>₩101,604</u>	<u>₩109,295</u>

24. General and Administrative Expenses:

General and administrative expenses for the three-month period ended March 31, 2002 and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Salaries and wages	₩279,598	₩ 99,055
Retirement benefits (Note 14)	20,227	25,475
Other employee benefits	52,022	91,126
Rent	10,523	4,961
Depreciation	54,886	16,265
Amortization	19,601	141
Taxes and dues	23,195	13,987
Advertising	10,999	7,028
Ordinary R&D	27,974	6,012
Fees and commissions	13,492	6,345
Other	43,806	23,492
	<u>₩556,323</u>	<u>₩293,887</u>

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25. Non-Operating Income (Expenses):

Non-operating income (expenses) for the three-month period ended March 31, 2002 and 2001 comprise the following (in millions of Won):

	2002		2001
Non-operating income:			
—Gain on disposal of fixed assets	₩ 315	₩	144
—Rent income	853		431
—Gain on investment in related parties using equity method of accounting (Note 5)	98,975		95,424
—Realized gain on investment securities	87,980		8,841
—Recovery of impairment loss on equity investment securities	15,318		—
—Recovery of impairment loss on debt investment securities	3,468		—
—Unrealized gain on investment in funds (Note 5)	27,055		30,045
—Gain on sale of troubled loans	13,534		—
—Other	22,179		11,897
	<u>269,677</u>		<u>146,782</u>
Non-operating expenses:			
—Loss on disposal of fixed assets	239		361
—Realized loss on investment securities	4,905		8,534
—Impairment loss on equity investment securities(Note 5)	31,622		—
—Impairment loss on debt investment securities(Note 5)	29,808		—
—Loss on sale of troubled loans	169		—
—Other	16,641		19,985
	<u>83,384</u>		<u>28,880</u>
	<u>₩186,293</u>		<u>₩117,902</u>

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26. Income Tax Expenses:

Income tax expenses for the three-month period ended March 31, 2002 and 2001 comprises the following (in millions of Won):

	2002	2001
Income taxes payable	₩ 296,709	₩ 75,830
Deferred income taxes from temporary differences	(13,459)	33,309
Retained earning adjustments	—	85
Income tax expenses	₩ 283,250	₩109,224
Deferred income tax asset at March 31	₩ 132,902	₩156,995
Deferred income tax asset at January 1	119,443	190,304
Changes in deferred income tax asset	₩ 13,459	₩ (33,309)

Adjustments of net income before income tax expenses to taxable income for the three-month period ended March 31, 2002 and 2001 comprise the following (in millions of Won):

	2002	2001
Adjustments to increase taxable income		
Permanent differences due to:		
—Interests recognized	₩ 1,500	—
—Other	817	₩ 2
	2,317	2
Temporary differences (See below)	1,399,139	757,303
	₩1,401,456	₩757,305
Adjustments to decrease taxable income		
Permanent differences due to:		
—Dividend income	—	₩ 429
—Refunded income taxes	₩ 2,464	—
—Refunded penalty	381	—
—Other	212	—
	3,057	429
Temporary differences (See below)	1,353,823	865,448
	₩1,356,880	₩865,877

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The significant changes in accumulated temporary differences and deferred tax assets (liabilities) for the three-month period ended March 31, 2002 comprise the following (in millions of Won):

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Deferred tax Assets (Liab.)</u>
Allowance for loan losses	₩ 671,717	₩ 493,870	₩ 431,587	₩ 734,000	₩ 217,998
Accrued interest	(478,123)	(386,364)	(478,149)	(386,338)	(114,742)
Unrealized loss on securities	1,875	(96,314)	—	(94,439)	(28,048)
Unrealized loss on derivatives	32,011	—	56,077	(24,066)	(7,148)
Present value discounts	87,972	75,102	84,156	78,918	23,439
Allowance for losses on acceptances and guarantees	43,823	72,617	43,823	72,617	21,567
Retirement benefits	1,785	57	79	1,763	524
Overseas investment losses	(6,664)	—	(2,516)	(4,148)	(1,232)
Stock option compensation cost	26,021	29,170	26,021	29,170	8,663
Other	21,750	247,658	229,402	40,006	11,881
	<u>₩ 402,167</u>	<u>₩ 435,796</u>	<u>₩ 390,480</u>	<u>₩ 447,483</u>	<u>₩ 132,902</u>

Deferred income tax adjusted by temporary differences in retained earnings for the three-month period ended March 31, 2002, and 2001 is as follows (in millions of Won):

	<u>2002</u>		<u>2001</u>	
	<u>Temporary Difference</u>	<u>Income Tax effect</u>	<u>Temporary Difference</u>	<u>Income Tax effect</u>
Unrealized gains/losses on investment in related parties using equity method of accounting	—	—	₩277	₩85

The statutory income tax rate applicable to the Bank, including resident tax surcharges, is approximately 29.7%. However, the effective tax rates are 29.65% and 30.76% for the years ended March 31, 2002, and 2001, respectively.

Income tax expenses and effective tax rates for the three-month period ended March 31, 2002, and 2001 comprise the following (in millions of Won):

	<u>2002</u>	<u>2001</u>
Income tax expenses	₩283,250	₩109,224
Net income before income tax expenses	955,439	355,051
Effective tax rate	<u>29.65%</u>	<u>30.76%</u>

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27. Earnings Per Share:

Earnings per share (“EPS”) for the three-month period ended March 31, 2002 and 2001 are calculated as follows (in millions of Won):

	<u>2002</u>	<u>2001(*)</u>
Net income after income taxes	₩ 672,189	₩ 245,827
Dividend on preferred stock (1%)	—	(329)
	<u>672,189</u>	<u>245,498</u>
Weighted average number of common shares outstanding	317,645,868	189,310,830
Earnings per share (in Won)	<u>₩ 2,116</u>	<u>₩ 1,297</u>

Diluted EPS for the three-month period ended March 31, 2002 and 2001 are calculated as follows (in millions of Won):

	<u>2002</u>	<u>2001(*)</u>
Net income after income taxes	₩ 672,189	₩ 245,827
Dividend on preferred stock (1%)	—	(329)
	<u>672,189</u>	<u>245,498</u>
Interest expenses on convertible bonds	1,682	181
Stock compensation expenses	460	—
	<u>674,331</u>	<u>245,679</u>
Weighted average number of common shares outstanding	328,716,086	191,297,342
Diluted earnings per share (in Won)	<u>₩ 2,051</u>	<u>₩ 1,284</u>

(*) EPS and diluted EPS for the three-month period ended March 31, 2001 are adjusted considering the effect of business combination with H&CB.

Weighted average number of common shares outstanding before and after dilution for three-month period ended March 31, 2002 are calculated as follows:

	<u>Number of Shares</u>	<u>Days Outstanding</u>	<u>Weighted Average Number of Shares</u>
Weighted average common stock—beginning balance	299,697,462	90	299,697,462
Treasury common stock—beginning balance	(31,548)	90	(31,548)
Stock dividends	17,979,954	90	17,979,954
(1)			<u>317,645,868</u>
Convertible bonds issued to Goldman Sachs	10,581,269	90	10,581,269
Employee stock option	488,949	90	488,949
(2)			<u>11,070,218</u>
Diluted weighted average number of common shares ((1)+(2))			<u>328,716,086</u>

(1) Weighted average number of common shares before dilution
(2) Diluting shares

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The increase in common shares resulting from convertible bonds is computed assuming the conversion had taken place as of the beginning of the period. The employee stock options have no dilution effect and are thus not considered in the above calculation.

The interest expenses on convertible bonds used in the calculation of the diluted EPS are net of 29.7% of tax effects. The number of common shares assumed to be converted from convertible bonds is calculated by dividing the total convertible bond amounts by conversion price per share.

As of March 31, 2002, securities convertible to common stock are as follows.

<u>Type</u>	<u>Exercise period</u>	<u>Numbers of common shares to be issued</u>	<u>Exercise price</u>
Convertible Bond	1 month after issuance date~ 1 month before maturity	10,581,269	One share per ₩22,124 of face value
Stock Option	03-19-2003~03-18-2005	112,529	₩23,469 per share
Stock Option	03-16-2004~03-15-2009	198,093	₩28,027 per share
Stock Option	11-01-2001~10-31-2004	390,000	₩5,000 per share
Stock Option	02-28-2002~02-27-2005	220,108	₩13,900 per share
Stock Option	03-01-2003~02-28-2006	211,383	₩27,600 per share
Stock Option	03-25-2004~03-24-2007	89,827	₩25,100 per share
Stock Option	11-17-2004~11-16-2009	650,000	₩51,200 per share
Stock Option	03-23-2005~03-22-2010	622,000	₩57,100 per share

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28. Assets and Liabilities Denominated in Foreign Currencies:

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

	Total Balances		Major Denomination Currencies(*)		
	Millions of Won	Thousands of US Dollars	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	₩ 145,838	US \$ 109,950	US \$ 56,106	EUR 6,339	JPY 5,282,367
Due from banks	119,563	90,141	69,378	—	1,159,401
Trading securities . . .	15,220	11,475	11,439	—	—
Investment securities	1,318,028	993,688	866,940	—	2,634,554
Loans in foreign currencies	3,971,436	2,994,147	2,618,563	11,232	1,137,368
Bills bought	811,948	612,144	538,718	40,914	1,615,215
Advances for customers	18,413	13,882	12,243	—	—
Call loans	410,521	309,500	289,000	—	2,622,500
Liabilities					
Deposits	1,139,326	858,961	661,750	13,708	5,394,103
Borrowings	2,449,335	1,846,604	1,612,219	30,111	19,189,921
Due to BOK	98,054	73,925	73,925	—	—
Call money	233,581	176,101	29,000	—	18,831,350
Debentures	952,526	718,129	663,840	—	—
Unsettled foreign payables	14,796	11,155	6,718	148	198,475

(*) Foreign currencies other than US dollars are converted into US dollar amounts using the exchange rates provided by Korea Financial Telecommunications & Clearing Institute at the balance sheet date.

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29. Related Party Transactions:

Significant transactions with related parties for the year ended March 31, 2002 and 2001 are as follows (in millions of Won):

<u>Account</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Transactions Relating P/L</u>
Kookmin Credit Card Co., Ltd.					
Loans	₩122,526	₩271,167	—	₩393,693	₩10,567
Other assets	1,907	1,235	—	3,142	1,235
Deposits	4,687	8,037	—	12,724	21
Borrowings	—	—	—	—	22
Other liabilities	18,334	—	₩ 13,331	5,003	53
Commissions incomes	—	—	—	—	38,000
Commissions expenses	—	—	—	—	62
Kookmin Leasing Co., Ltd.					
Securities	761	—	29	732	125
Deposits	75,912	36,276	—	112,188	798
Kookmin Venture Capital Co., Ltd.					
Loans	96,000	—	—	96,000	2,398
Deposits	10,041	4,980	—	15,021	120
Kookmin Data System Co., Ltd.					
Deposits	3,676	—	1,070	2,606	30
Other liabilities	879	—	—	879	25
Kookmin Futures Co., Ltd.					
Due from banks	2,092	639	—	2,731	1
Deposits	10,646	1,067	—	11,713	140
Other liabilities	620	—	—	620	18
KB Investment Trust Mgt. Co., Ltd.					
Deposits	14,704	1,002	—	15,706	177
Kookmin Investment Co., Ltd.					
Deposits	19,770	3,998	—	23,768	221
Kookmin Bank Luxembourg S.A.					
Due from banks	9,903	—	1,371	8,532	—
Loans	218,807	197,643	134,457	281,993	1,482
Other assets	—	27	—	27	27
Borrowings	—	39,792	—	39,792	40
Other liabilities	155	—	52	103	(103)
Kookmin Bank International (London) Ltd.					
Due from banks	1,856	—	111	1,745	—
Loans	146,911	75,924	—	222,835	1,003
Borrowings	7,670	71,914	—	79,584	82
Other liabilities	76	91	—	167	(167)
Kookmin Finance Asia Ltd. (HK)					
Due from banks	3,766	9,117	—	12,883	—
Borrowings	16,311	—	16,311	—	—
Kookmin Finance H.K. Ltd.					
Due from banks	2,030	355	2,030	355	—
Loans	182,052	6,920	—	188,972	1,104
Debentures	6,463	41	—	6,504	63
Kookmin Bank Leasing & Finance (HK) Ltd.					
Loans	17,440	—	2,835	14,605	47

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<u>Account</u>	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Transactions Relating P/L</u>
Joeeun Leasing Co., Ltd.					
Loans	₩ 163,295	₩ 729	—	₩ 164,024	₩ 2,060
(Present value discounts)	(1,212)	—	₩ (133)	(1,079)	133
Other assets	3,232	—	122	3,110	(122)
Deposits	1,304	2,074	—	3,378	3
Other liabilities	100	—	—	100	—
Acceptances and guarantees	1,396	1,421	—	2,817	—
Joeeun Investment Trust Mgt. Co., Ltd.	—	—	—	—	—
Deposits	25,326	—	7,026	18,300	280
Joeeun Real Estate Trust Co., Ltd.	—	—	—	—	—
Loans	40,000	373	—	40,373	903
Deposits	241	—	66	175	2
Other liabilities	1,797	—	—	1,797	—
Acceptances and guarantees	53	—	—	53	—
Joeeun Industrial Co., Ltd.	—	—	—	—	—
Loans	228,317	—	1,087	227,230	7,275
Deposits	2,904	2,153	—	5,057	22
Other liabilities	1,081	—	—	1,081	—
Acceptances and guarantees	60	—	—	60	—
Joeeun Credit Information Co., Ltd.	—	—	—	—	—
Deposits	7,838	42	—	7,880	90
Other liabilities	3,150	100	248	3,002	(3,838)
Commissions expenses	—	—	—	—	(1,291)
	<u>₩1,474,877</u>	<u>₩737,117</u>	<u>₩180,013</u>	<u>₩2,031,981</u>	<u>₩63,108</u>

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30. Transactions with Financial Institutions:

The assets and liabilities related to transactions with financial institutions for the year ended March 31, 2002 are as follows (in millions of Won):

<u>Asset/Liability</u>	<u>The Bank of Korea</u>	<u>Other Banks</u>	<u>Other Financial Institutions</u>	<u>Total</u>
Cash and due from banks				
Due from banks in Won	₩3,519,088	₩ 128,934	₩ 924,196	₩4,572,218
Due from banks in foreign currencies	30,132	82,118	7,313	119,563
	<u>3,549,220</u>	<u>211,052</u>	<u>931,509</u>	<u>4,691,781</u>
Loans				
Loans in Won	—	36,028	772,711	808,739
Loans in foreign currencies	—	1,213,950	348,837	1,562,787
Bills bought in Won	—	484,349	2,746	487,095
Securities purchased under resale agreements	714,300	100,000	40,000	854,300
Call loans	—	1,409,197	780,624	2,189,821
Other	—	—	90,817	90,817
	<u>714,300</u>	<u>3,243,524</u>	<u>2,035,735</u>	<u>5,993,559</u>
Deposits				
Deposits in Won	—	721,574	1,795,074	2,516,648
Borrowings				
Borrowings in Won	1,336,986	377,018	686,106	2,400,110
Borrowings in foreign currencies	—	2,272,505	176,830	2,449,335
Other	98,054	233,581	2,032,700	2,364,335
	<u>1,435,040</u>	<u>2,883,104</u>	<u>2,895,636</u>	<u>7,213,780</u>
Debentures				
Debentures in Won	—	881,800	1,980,000	2,861,800
Debentures in foreign currencies	—	775,664	176,862	952,526
	<u>—</u>	<u>1,657,464</u>	<u>2,156,862</u>	<u>3,814,326</u>

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31. Assets and Liabilities Bearing Interest:

Assets and liabilities bearing interest income and interest expenses for the three-month period ended March 31, 2002 are as follows (in millions of Won):

Assets bearing interest income

<u>Account</u>	<u>Average Balance</u>	<u>Interest Income</u>	<u>Interest Rate</u>
Cash and due from banks	₩ 5,615,057	₩ 13,718	0.98%
Trading securities	5,975,900	26,821	1.80%
Investment securities	26,345,125	382,135	5.80%
Loans	111,020,630	2,095,762	7.55%
	<u>₩148,956,712</u>	<u>₩2,518,436</u>	

Liabilities bearing interest expenses

<u>Account</u>	<u>Average Balance</u>	<u>Interest Expenses</u>	<u>Interest Rate</u>
Deposits	₩115,643,809	₩1,192,936	4.13%
Borrowings	10,805,825	112,047	4.15%
Debentures	9,941,997	177,092	7.13%
	<u>₩136,391,631</u>	<u>₩1,482,075</u>	

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32. Operations of the Trust Accounts:

Assets and liabilities of the trust accounts as of March 31, 2002 are classified as principal or dividend guarantee money trusts performance money trusts, and property trusts as follows (in millions of Won):

	<u>Guarantee Money trusts</u>	<u>Performance Money trusts</u>	<u>Property trusts</u>	<u>Total</u>
Securities	₩4,740,628	₩12,127,882	₩ 100,104	₩16,968,614
Loans	230,295	701,384	—	931,679
Receivables	—	—	15,527,084	15,527,084
Due from banking accounts	231,843	409,513	15,530	656,886
Provision for loan losses	(195,656)	(125,567)	—	(321,223)
Other assets	100,724	478,048	19,629	598,401
Total assets	<u>₩5,107,834</u>	<u>₩13,591,260</u>	<u>₩15,662,347</u>	<u>₩34,361,441</u>
Trusts	₩4,654,544	₩13,043,826	₩15,627,249	₩33,325,619
Reserves for future losses	32,874	2,662	—	35,536
Other liabilities	420,416	544,772	35,098	1,000,286
Total liabilities	<u>₩5,107,834</u>	<u>₩13,591,260</u>	<u>₩15,662,347</u>	<u>₩34,361,441</u>

The Bank is liable to the following portion of the difference between book value and fair value in principal guarantee money trusts or dividend guarantee money trusts (in millions of Won):

	<u>Book Value</u>	<u>Fair Value</u>	<u>Liable Amount</u>
Principal guarantee money trusts	₩4,398,537	₩4,391,282	₩(7,255)
Principal and dividend guarantee trusts	350,399	349,346	—
	<u>₩4,748,936</u>	<u>₩4,740,628</u>	<u>₩(7,255)</u>

The results of operation of the trust accounts, from the Bank's management accounting point of view, for the three-month period ended March 31, 2002 are as follows (in millions of Won):

<u>Trust Account Related Income</u>		<u>Trust Account Related Expenses</u>	
Fees on money trusts	₩104,885	Interest expense on borrowings from trust accounts	₩6,065
Early withdrawal penalties	399	Compensation to trust accounts	—
Interest revenue on loans to trust accounts	2,287		
	<u>₩107,571</u>		<u>₩6,065</u>

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued) for the three-month periods ended March 31, 2002 and 2001 (Unaudited)

33. Business Combination with H&CB:

The Bank entered into a business combination contract (“the Contract”) with H&CB on April 23, 2001 and obtained approval from the stockholders for such combination on September 29, 2001. In accordance with the Contract, the Bank completed the legal consolidation with H&CB as of October 31, 2001.

According to the Contract, the stockholders of the Bank and H&CB received 1 new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB, respectively. The new common shares of the Bank were listed on the Korea Stock Exchange on November 9, 2001. Although the business combination took the legal form of consolidation, the Bank acquired H&CB’s total assets of ₩67,742,958 million and liabilities of ₩64,381,185 million by applying the purchase method of accounting.

The Bank’s registration statement was declared effective by the Securities and Exchange Commission of the United States of America on September 10, 2001, and the new shares of the Bank were listed on New York Stock Exchange as American Depositary Shares (“ADS”) on November 1, 2001.

KOOKMIN BANK

NOTES TO NON-CONSOLIDATED QUARTERLY FINANCIAL STATEMENTS—(Continued)
for the three-month periods ended March 31, 2002 and 2001
(Unaudited)

34. Business Segments:

The Bank is organized into four major business segments: Retail Banking, Business Banking, Treasury & Investment Management, and Credit Card. These business segments are based on the nature of the products and services provided, the type or class of customer, and the Bank's management organization, and provide the basis on which the Bank reports its primary segment information.

The following table shows the distribution of the Bank's operations by business segment (in millions of Won):

<u>At March 31, 2002</u>	<u>Retail banking</u>	<u>Business banking</u>	<u>Treasury and Investment Management</u>	<u>Credit Card</u>	<u>Other</u>	<u>Total</u>
Loans	₩62,848,320	₩37,198,839	₩ 7,509,801	₩4,855,645	—	₩112,412,605
Securities	—	—	33,073,351	—	—	33,073,351
Fixed assets	1,784,830	390,676	143,644	273,097	₩ 303,794	2,896,041
Other assets	2,724,911	159,834	5,192,052	111,730	3,922,486	12,111,013
Total assets	<u>₩67,358,061</u>	<u>₩37,749,349</u>	<u>₩45,918,848</u>	<u>₩5,240,472</u>	<u>₩4,226,280</u>	<u>₩160,493,010</u>
Operating income	<u>₩ 1,306,897</u>	<u>₩ 723,255</u>	<u>₩ 987,753</u>	<u>₩ 276,781</u>	<u>₩ 285,857</u>	<u>₩ 3,580,543</u>

The Bank principally operates in Korea. Secondary segments are geographically oriented and are segregated into two segments: domestic and foreign operations. The following table shows the distribution of the Bank's operations by geographical market (in millions of Won):

<u>At March 31, 2002</u>	<u>Domestic</u>	<u>Overseas</u>	<u>Bank Total</u>
Loans	₩ 111,390,012	₩1,022,593	₩112,412,605
Securities	32,964,998	108,353	33,073,351
Fixed assets	2,892,706	3,335	2,896,041
Other assets	12,041,593	69,420	12,111,013
Total assets	<u>₩159,289,309</u>	<u>₩1,203,701</u>	<u>₩160,493,010</u>
Operating income	<u>₩ 3,563,281</u>	<u>₩ 17,262</u>	<u>₩ 3,580,543</u>

35. Reclassification of Accounts:

Certain accounts of prior financial statements are reclassified for comparative purposes. These reclassifications have no effect on the net asset value and the net income of the Bank as of the balance sheet date.

The Bank completed the legal consolidation with H&CB as of October 31, 2001. The financial statements of prior year present the financial position of the former Kookmin Bank as of March 31, 2001, and the results of its operations for the three-month period then ended.

SIGNATURE

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

KOOKMIN BANK

By: _____ /s/ Jung Tae Kim
Name: Jung Tae Kim
Title: President and Chief Executive Officer

Date: June 25, 2002

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