



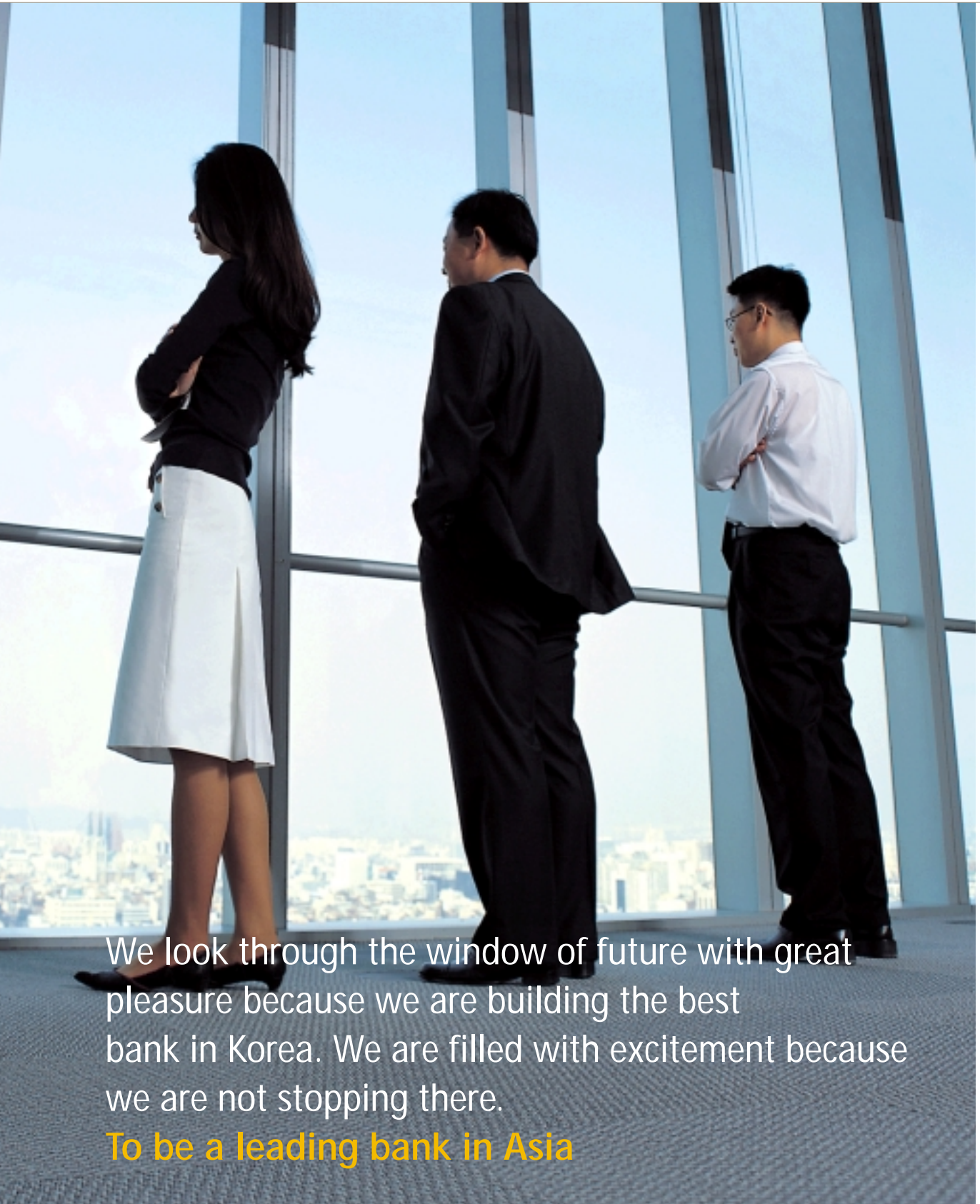
We are KB 

The preferred banking partner is
Focusing on what we do best in
Creating enterprise value

Kookmin Bank

02	Corporate Profile
04	Financial Highlights
06	Letter to Stakeholders
10	KB Aspirations
	<i>Our Customers</i>
	<i>Financial and Operational Strength</i>
	<i>Superior Value Management</i>
	<i>Human Power Distinction</i>
18	Management Team
19	KB Code of Ethics
21	Board of Directors
22	Corporate Governance
24	Business Description
25	Organization Chart
26	Multi-Specialist Growth Strategy
28	Risk Management
32	Business Environment
	<i>Major Business Units</i>
	<i>Retail Banking</i>
	<i>Corporate Banking</i>
	<i>Credit Card Operations</i>
	<i>Capital Markets and International Banking</i>
	<i>Other Business Units</i>
	<i>Trust Services</i>
	<i>National Housing Fund Management</i>
	<i>Subsidiaries</i>
38	Financial Section
	<i>Management's Discussion & Analysis (MD&A)</i>
	<i>Report of Independent Accountants</i>
	<i>(Non-Consolidated Banking Accounts)</i>
	<i>Non-Consolidated Balance Sheets</i>
	<i>Non-Consolidated Income Statements</i>
	<i>Non-Consolidated Statements of Appropriations of</i>
	<i>Retained Earnings</i>
	<i>Non-Consolidated Statements of Cash Flows</i>
	<i>Notes to Non-Consolidated Financial Statements</i>
	<i>Balance Sheets (Trust Accounts)</i>
	<i>Income Statements (Trust Accounts)</i>
	<i>Notes to Financial Statements (Trust Accounts)</i>
	<i>Report of Independent Accountants (Consolidated)</i>
	<i>Consolidated Balance Sheets</i>
	<i>Consolidated Income Statements</i>
	<i>Changes in Consolidated Shareholders' Equity</i>
	<i>Consolidated Statements of Cash Flows</i>
	<i>Notes to Consolidated Financial Statements</i>
176	Company Directory and Select Corporate Data
177	Shareholder Information
178	Forward-Looking Statement





We look through the window of future with great pleasure because we are building the best bank in Korea. We are filled with excitement because we are not stopping there.

To be a leading bank in Asia

KOOKMIN BANK (KSE: 60000 NYSE: KB)

Profile

We are the largest bank in Korea, accounting for approximately one-third of the total deposits market share in the domestic banking industry. With assets totaling KRW172 trillion, an unrivaled distribution network of 1,194 branches and a customer base of 24 million nationwide, we are making important changes to the Korean banking industry. As one of Korea's most influential companies, KB is defining excellence in customer service, transparency and accountability, and credibility in management.

Business

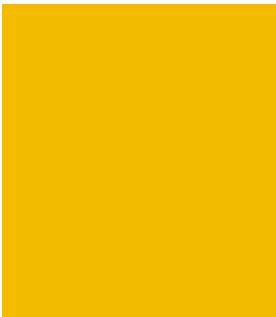
Our business is to be the preferred banking partner that customers seek to meet their financial needs and objectives. We offer a full range of products and services in retail and corporate banking, capital markets, international banking, credit cards, and trust services. KB also offers complementary financial products and services in credit cards, asset management, investment trusts, real estate and credit collection through its subsidiaries and third-party affiliates.

Our goal is to provide customers easy access to numerous financial options-all under the trusted and respected KB brand and affiliations.

Growth strategy

KB's multi-specialist growth strategy is to focus on what we do best, which are to develop and outsource high quality financial products and services, create efficient process and information technology, and build a marketing-and-sales competence with differentiated distribution channels for our customer segments.

Our multi-specialist strategy capitalizes on our competitive advantages, including our unrivaled distribution network and customer base, economies of scale, and a performance-based culture that attracts highly skilled employees.



Vision

Our vision is to be the leading bank in Asia.

To realize this vision, we will value and foster our four KB aspirations.

Aspirations

Our Customers- to set the standards for excellence in customer service by offering competitive financial products and services supported by choice, convenience, ease of access and information

Financial and Operational Strength- to establish transparency and accountability, and deliver stable earnings and a healthy balance sheet

Superior Value Management- to maximize value by achieving performance targets, creating sound asset quality and capitalizing on growth opportunities

Human Power Distinction- to embrace a performance-based culture within a framework of strong corporate ethics and responsibility

We are
KB 

Select Awards and Recognitions in 2002

Ranked 1st among 100 Most Influential CEOs;
Chosun Daily; January

Best Corporate in Investor Relations;
Asiamoney; January

2002 Best Retail Bank in Korea;
The Asian Banker; January

Best IR in Korea;
Asiamoney; March

Best Website for Internet Banking;
Korea Management Association; May

Management Innovation "Asia Model";
Business Week; June

Best Local Bank in Korea;
Finance Asia; June

Korea's Best Brand;
Fnnews Research & Consulting; June

Government Award for CEO Charity Donation;
Dasan Management Awards; June

Best CI among Banks;
Korea Management Association; July

Best Bank in Korea;
Euromoney; July

Grand Prize in Korea's Best Internet Product;
Maeil Economy Daily, Joongang-Ilbo, Korea Commerce Net; July

Ranked 1st in Best Corporate Transparency;
Edaily & Thinkmoney; August

Best Bank in Korea;
The Banker; September

2002 Brand Star;
The Korea Economic Daily; October

Grand Prize in Audit;
Korea Public-Listed Companies Association; October

Best M&A in Asia;
Finance Asia; October

Grand Prize in Brand Power;
Munhwa Daily; October

Best Corporate IR in Korea
IR Magazine; November

The Highest Brand Value in Banks;
The Industrial Policy Institute; November

2002 Top Brand Grand Prize;
Daehan Daily Newspaper; November

CEO of the Year;
Kyunghyang Daily; Digital Times;
The Korea Economic Daily; December

Most Consumer Preferred Products Provider in 2H 2002;
Hankyoreh; December

Best Firm in Investor Relations in 2002;
Asiamoney; December

Information Protection Grand Prize;
The Ministry of Information and Communication; December

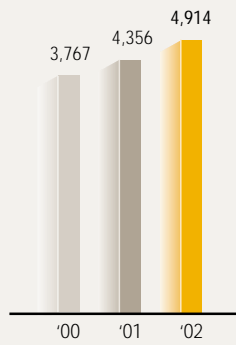
2002 Best Corporate Governance Bank;
The Asset; January

Financial Highlights

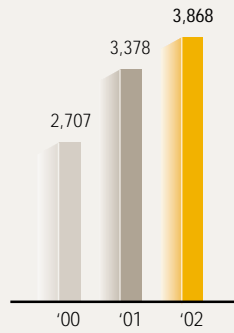
	2000 ¹⁾	2001 ¹⁾	2002
			<i>(In billions KRW)</i>
Net interest income	3,767	4,356	4,914
Non-interest income	859	1,329	1,505
Operating income	1,648	2,042	2,266
Net income	1,244	1,486	1,310
Pre-provision income	2,988	3,685	3,596
Operating income before provision	2,707	3,378	3,868
Substandard & below credits	6,303	4,015	3,821
			<i>(In trillions KRW)</i>
Total assets	142.0	156.9	171.5
Total deposits	105.8	118.2	126.2
Total loans	95.6	107.0	129.0
Total shareholders' equity	6.8	8.9	10.0
			<i>(%)</i>
Return on assets (ROA)	0.96	0.98	0.81
Return on equity (ROE)	19.47	18.16	13.04
Net interest margin (NIM)	3.22	3.22	3.39
Loans to deposits	80.7	80.5	88.3
BIS capital adequacy ratio	10.67	10.23	10.41
Cost income ratio	42.20	42.20	41.70
Substandard & below credits ratio	6.09	3.56	2.89
Coverage ratio	57.7	64.0	65.4

¹⁾ Based on pro-forma figures for the merger of Kookmin Bank and H&CB.

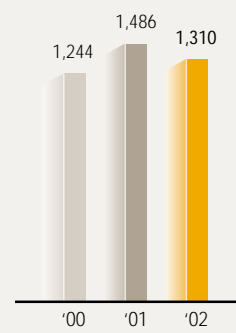
Net interest income
(In billions KRW)



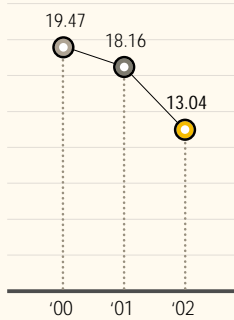
Operating income before provision
(In billions KRW)



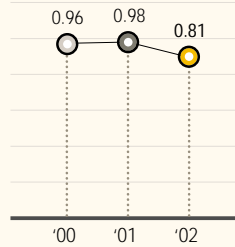
Net income
(In billions KRW)



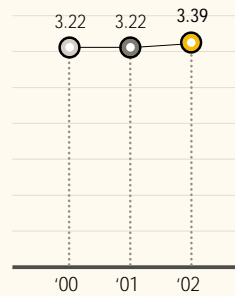
Return on equity (ROE)
(%)



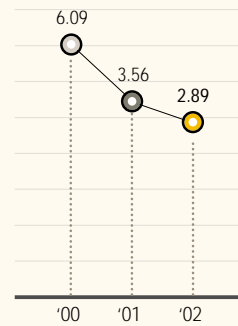
Return on assets (ROA)
(%)



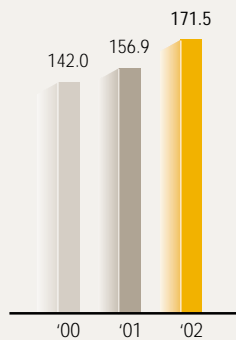
Net interest margin (NIM)
(%)



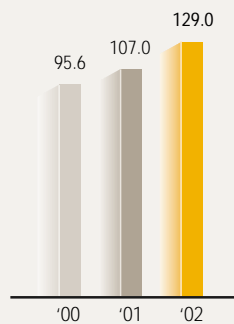
Substandard & below credits ratio
(%)



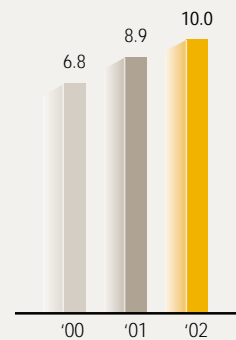
Total assets
(In trillions KRW)



Total loans
(In trillions KRW)



Total shareholders' equity
(In trillions KRW)



Letter to Stakeholders



Many people rallied behind KB last year for its giant leap to become the leading bank in Korea. I ask that they once again display faith in KB's future and show full support, cooperation and assistance for its next giant leap to the global stage

Jungtae Kim *President & CEO*

Commitment to Value Creation

We are earning the right to say that we are the best bank in Korea, and not just because we are the largest bank. While our leading market position does afford us certain competitive advantages, being the best is ultimately about creating and offering value.

How much do our customers value KB products and services to come to us repeatedly to achieve their financial objectives? How much do our shareholders value KB investments to join and remain long-term KB partners? How much do our employees value KB as an employer of choice?

As we benchmark ourselves against the best international practices in carving a position among the top global financial institutions, we will endeavor to offer the kinds of value that our customers, shareholders and employees seek in a partner they can trust.

Year in Review

The year 2002 was important for KB. We concentrated on establishing a common vision, corporate identity and shared values between our former Kookmin Bank and H&CB employees. We also prepared for the next phase of KB's growth by identifying our near-term opportunities and long-term targets.

In 2002, we also focused on adopting and implementing the best tools and resources available to the financial-services industry with respect to people, process and IT management.

These investments in our infrastructure will support our multi-specialists growth strategy based on the "select and concentrate to be the best" philosophy and they will help yield much value going forward. The first evidence of value creation was how our investments contributed to the company's successful integration.

Despite the traditional challenges and problems associated with merging two large entities, KB has set the global standard in successfully integrating a merger in one year, and is now serving as a case study for academics and consultants alike. I am happy to report that unlike the natural occurrence of customer attrition in a typical merger, the number of our customers actually increased by 1.24 million during 2002, serving as one of many testimonies to our integration success.

I would like to thank our customers, shareholders and employees for our successful integration. Your faith and patience in KB was invaluable to us during the integration process. KB is reenergized and I look forward to giving back to our stakeholders by offering the best customer service, creating corporate value and providing a rewarding working environment for our employees.

2002 Financial Results and Position

Our net interest and non-interest income included positive increases in commission and fees from new products and services and credit cards, offset by declining interest rates we received on loans. However, despite the general drop in interest rates and intense price competition, we have been able to grow our loans by 20.6% and improve our net interest margin (NIM) to 3.39% in 2002, up from 3.22% in 2001 due to our focus on profitability.

Our operating income-before-provisioning was KRW3.87 trillion, an increase of 14.5%, from KRW3.38 trillion in 2001, demonstrating that our earnings potential has been maintained.

However, our net income was KRW1.31 trillion in 2002, down by 11.8% from KRW1.49 trillion in 2001. Our net income results were negatively affected by higher loan loss provisions and higher non-operating expenses, including losses from the Kookmin Credit Card and the sale of Hynix Semiconductor shares.

Despite the tough operating environment in 2002, our loans classified as substandard and below declined to 2.89% from 3.56% at the end of 2001. Furthermore, the coverage ratio for substandard and below credits improved to 65.4% from 64%. Our BIS capital ratio was 10.41% at the end of 2002.

KB'S Multi-Specialist Growth Strategy

When we set out to create the KB business model, we understood that the traditional banking business model no longer works in today's globally competitive financial market. While the domestic banking industry is still contemplating whether it should grow through consolidation, a holding company structure, or a universal banking model, we have moved beyond that challenge.

KB's multi-specialist growth strategy is to select and concentrate on core businesses and operations that we believe we can be the best in. Simply put, we do not believe it is possible for KB to be the best in everything. Instead, we aim to maximize enterprise value and grow by leveraging our expertise in banking operations and competitive strengths in our process, people, and IT. (See page 26 for additional information on our multi-specialist growth strategy.)

Challenges Going Forward

The geo-political developments and Korean economy

The global economic and political developments caused much uncertainty and speculation in 2002 and they continue to do so in 2003. Korea's own events, including concerns over North Korea and the declining domestic growth are further adding to the uneasiness. As we closely monitor these developments, one thing is certain and it will continue to be one of our major focuses in 2003: the importance of an effective bank-wide risk management system.

In 2002, we saw a growth in real GDP of 6% in Korea, largely fueled by buoyant domestic demand that led to healthy consumer spending and borrowing. The outlook for the real GDP growth in 2003 is 4.1% according to the Bank of Korea. The slower economic growth, combined with the government's decision to tighten regulations regarding loan provisions and credit extensions are leading to credit concerns. However, our view is that delinquency in the credit card sector is likely to peak during the second quarter of 2003. We intend to cooperate with the government in working together to foster a stable and healthy environment for the long-term growth of the Korean economy. We will also closely examine the rising household debt and delinquency rates and establish disciplinary measures to control our risk exposure. As a part of our response to the rising credit risk,

Letter to Stakeholders

we have implemented risk-adjusted pricing system (RAPS) for loan pricing and risk-adjusted return on capital (RAROC) for capital allocation.

Intensifying competition in the banking sector

We expect intense competition from both traditional and nontraditional financial companies: (i) domestic competitors who may try to expand their market share through costly price competition; (ii) nontraditional banks such as telecommunications and internet companies crossing over to financial services sector, including mobile and on-line financial management; and, (iii) foreign financial services and domestic securities companies trying to break into the high margin, high growth personal financial services (PFS).

Competition from domestic peers

We have better economies of scale and funding structure (lower cost of funds) than our domestic competitors to maintain our competitive advantages, including pricing power. This is evidenced by our ability to grow our customer base and maintain our NIM despite the heavy price competition in 2002. Our strategy in 2003 will be to focus on profit growth over volume growth.

Competition from nontraditional banks

Over the long run, we possess a level of safety and trust in financial management that nontraditional banks cannot provide. However, these companies also create opportunities for KB to explore new businesses, including the creation of strategic alliances with these nontraditional banks to revolutionize internet and wireless banking. Currently, KB is evaluating many options, including our potential offering of financial accounting products and services through close collaboration with financial software companies.

Competition from foreign financial services and domestic securities companies in the PFS market

Our extensive local market expertise and scale of distribution network act as a barrier to entry for foreign companies to successfully penetrate the PFS market without collaborating with a company of KB's resources. In fact, foreign companies' interests in the Korean PFS market provide an opportunity for

KB to create strategic alliances and joint ventures with foreign companies for win-win partnerships.

We believe we have a strong competitive advantage over domestic securities firm in the PFS business. We possess the largest customer base and assets in Korea. We are able to leverage our current resources to cross sell PFS products and services through our dominant distribution network.

KB Opportunities in the PFS Market

Traditionally, Koreans have put their money in high-interest deposits and principal-guaranteed trust funds. However, between the declining interest rates and the government's decision to rid principal-guaranteed trusts, Koreans are seeking alternative investment vehicles. Furthermore, with the evolving life-style trends of Koreans, in which both the life expectancy and income are growing, we foresee a rapid growth in Korea's PFS market.

We will capitalize on the PFS market's growth potential by diversifying and expanding our non-interest income. In the process, we will create a more stable earnings base that is less sensitive to interest rate movements.

Currently, there is no dominant player in Korea's PFS business but we hope to fill that void in select, attractive products like investment and real estate trusts. Another such product is bancassurance. We presently have an agreement to sell ING Group's insurance products and plan to choose additional high-quality insurance providers to sell their products through our distribution channel commencing August 2003.

Maintaining KB's Step-Ahead Advantage

As our core competency is in creating a step-ahead advantage, we will continue to remain steps ahead of our competitors and be the first to identify and capitalize on opportunities.

This means KB employees will be the pioneers in successfully creating and realizing merger synergies of two large banking entities. It also means KB employees will be on the forefront of identifying and successfully entering new growth markets. KB



employees will be among the first to embrace and implement best practices in operational and financial performance.

Our employees will execute KB strategies and develop our long-term global competitiveness.

KB Objectives in 2003

Pursue Profit-Oriented Asset Growth Policy. We will pursue profit-oriented and selective asset growth, and maintain margins with pricing power

Expand Fee Businesses. We will increase our commissions and fees from non-interest income by creating new products and services in the PFS market and developing alliances with quality financial institutions to cross-sell their products and services through our dominant distribution network

Enhance Risk Management. We will further enhance our implementation of a bank-wide risk management system

Strengthen Asset Quality. We will improve our loan management system by strengthening credit evaluation and review, and taking further actions to reduce household and credit card delinquencies

Increase Shareholder Value. We will diligently carry out an appropriate dividend policy and endeavor to strike a balance between dividend payout and reinvestment in growth. We also plan to facilitate the divestiture of

government's share in KB and continue our steps to enhance transparency and corporate governance

Our Road Ahead

Our vision of becoming a leading bank in Asia is aggressive, but we are an aspiring company. Every year, we review our roadmap to our destination. In doing so, we continually find that it is our people who can move the company to its visionary position.

Accordingly, we are realigning our human resources to realize our objectives. We are reshuffling our Board as necessary to include independent experts who can add value to KB's strategic direction, and we are identifying talented leaders who can navigate their teams through challenges and opportunities. As a part of our transformation into a performance-based culture, we have also created a profit-and-loss accountability and reward at all division levels.

Many people rallied behind KB last year for its giant leap to become the leading bank in Korea. I ask that they once again display faith in KB's future and show full support, cooperation and assistance for its next giant leap to the global stage. In asking, I do hope that this is only the beginning of a rewarding partnership among our customers, shareholders, employees, communities and regulators.

Thank you.

A handwritten signature in black ink, appearing to read 'Jungtae Kim'.

Jungtae Kim *President & CEO*

Our Customers



Our goal is to serve the needs of all of our diverse 24 million-plus-and-growing customers and to earn their respect as a reliable financial-services partner.

Indisputable Leadership in Defining Excellence in Customer Service



Building Long-Term Customer Relationships

We respect and value every customer regardless of the size of his or her resources. Our goal is to serve the needs of all of our diverse 24 million-plus-and-growing customers and to earn their respect as a reliable financial-services partner. We are building competency-based, long-term customer relationships with the breadth and depth of our services.

Anticipating Our Customers' Needs and Delivering Effective Financial-Management Tools to Meet Our Customers' Objectives

We believe that people today have demanding careers, educational and family obligations that leave them with little free time. Consequently, what they value is a bank that creates and offers convenient, customized financial products and services that help them realize their financial goals.

Giving Back to Enhance Community Welfare

In 2002, 1.24 million new customers joined the KB family. Our customers' faith in KB is not lost on us and we are giving back by helping enhance our community welfare. Our employees contribute their time and energy for various charitable organizations, and monetary contributions totaled over KRW20 billion in 2002.

KB is also helping enhance financial literacy of both our customers and communities by establishing the industry's first blueprint for public financial education. In 2002, KB launched "KB Financial Education TFT," which is a think tank of KB employees who work in collaboration with leading specialists in developing financial educational programs. The first project developed from the collaboration is the "Kid Bank Program" after KB Financial Education TFT determined that financial success stems from early education on money and responsibility. We recently published a book entitled, *It's Time to Get Friendly with Money*, and donated it to 40,000 graduating high school students. The book is available at bookstores and all proceeds from the book will be reinvested in other KB-sponsored educational programs.



Financial and Operational Strength

A Forte Our Constituents Can Trust in Years to Come



Accountability and Transparency in Management

We are accountable for our actions and performance to our constituents and we take this responsibility seriously. We are developing transparency and fairness in company performance to identify and find ways to enhance our performance and ethical standards.

We are creating a working environment where employees can question, analyze and execute a right course of action in an ethical manner to protect the assets of our customers and shareholders. We are always pushing ourselves to do better, to think harder, and to act wiser in order to strengthen our performance. While we push ourselves to set aggressive performance targets, we never lose sight of maintaining the trust our constituents have in us.

Decisions Made to Achieve a Global Competitive Position

KB will maintain its leadership in the domestic banking sector and aspire to become a leading bank in Asia. That means every decision we make has to support the long-term success of the company's global competitive position.

In 2002, we made significant investments in integrating and restructuring IT, process and people of the former Kookmin Bank and former H&CB into KB. The result is an unrivaled entrenchment of a distribution network, an extensive skillful work force, and preparation for the installation of sophisticated, next-generation computer systems.

The Highest-Credit Rated Bank in Korea

Our credit ratings are A3 by Moody's and BBB+ by S&P, the highest possible credit ratings afforded to a bank in Korea.

The health of a financial institution is critical for gaining the trust and confidence of its customers, shareholders and employees. We work hard to create stability in our banking activities to deliver stable earnings and a healthy balance sheet. We actively follow regulatory guidelines, practice prudent risk/return policies and invest carefully to increase our enterprise value.





*Our goal is to actively follow regulatory guidelines,
practice prudent risk/return policies and invest carefully to increase
our enterprise value*

Superior Value Management



Our goal is to stay a step ahead in a fiercely competitive financial-services environment by participating in the globalization of expertise, knowledge and resources

Dedication to Maximizing Our Shareholder Value



Value Creation

In everything we do, we are looking for ways to maximize efficiency, productivity and effectiveness of our business as a product provider, processor and distributor.

Participation in Globalization of Expertise, Knowledge and Resources

We are creating global alliances and joint ventures with leading financial institutions. Our goal is to stay a step ahead in a fiercely competitive financial-services environment by participating in the globalization of expertise, knowledge and resources. Our partnerships with global institutions like ING Group and Macquarie Bank of Australia expose us to global best standards.

To avoid the traditional learning curve associated with "going at it alone," we are combining our partners' expertise and knowledge of best practices in bancassurance, investment banking, and asset management with our local market knowledge and distribution dominance.

Our partnerships with leading global financial institutions allow us to replicate our partners' expertise and knowledge that enable them to achieve a successful global presence.

Subsidiaries Offering Another Growth Engine for KB

In today's competitive environment among financial services companies, our management team is committed to transforming our core business units and subsidiaries into dominant players in their respective markets. Global market forces and emerging domestic trends create new opportunities for KB and our subsidiaries to enhance our businesses. Our management team is always exploring new avenues of growth, cost savings, improved customer services and employee relations in its quest to build a strong global presence in banking.

Human Power Distinction

Performance-Based Culture Supported by a Strong Sense of Corporate Ethics and Responsibility



We Challenge, Motivate and Inspire Our Employees to be the Best They Can Be

KB aims to be the employer of choice. We are creating a comfortable, pleasant working environment that is filled with excitement and challenges. Our basic human resources management principle is that we must constantly challenge, motivate and inspire our employees to be the best at what they do and to ultimately create value for our customers.

We encourage creativity, empowerment and entrepreneurial spirit within the framework of employee and organizational harmony. We support self-development through specialized training programs, such as one-year, self-education sabbaticals for long-term employees and educational tuition assistance, including the cost of MBAs from top institutions abroad.

Our goal is to create a work force that can successfully execute KB's strategies.

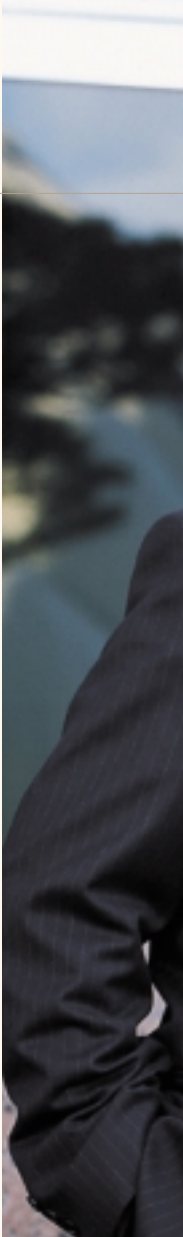
Our Management Team is Building Leadership, Credibility and Track Record

What sets KB apart from our competitors is our management team. As the standard for evaluating management performance is constantly raised through globalization, our management team is on the forefront of capitalizing on global developments.

Our senior management team has demonstrated its ability to accomplish what it has set out to do. KB's strong and experienced management team has guided Kookmin Bank and H&CB, from their inception in the 1960s, to their public listings in the mid-1990s, to their privatizations in the late-1990s, through the course of a merger between two powerful banks in late 2000. Today our management team is working hard to move KB to our visionary position.

KB Employees are Pledged to KB Code of Ethics

Every KB employee pledges to the KB Code of Ethics and we understand that we are bound to the principles of the Code, which guide our values, judgment and conduct.



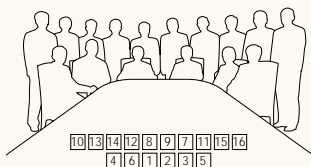


*Our goal is to create a work force that can successfully execute
KB's strategies*

Management Team



Senior Management Team



¹⁾ Sanghoon Kim	Chairman
²⁾ Jungtae Kim	President & CEO
³⁾ Sungham Lee	Auditor & Executive Director
⁴⁾ Jongkyoo Yoon	EVP, Corporate Financial Division
⁵⁾ Buhmsoo Choi	EVP, Strategic Planning Division
⁶⁾ Donald H. MacKenzie	Director & EVP, Risk Management Division
⁷⁾ Sungchul Kim	EVP, General Administration Division
⁸⁾ Jaein Seo	EVP, Information Technology Division
⁹⁾ Bockwoan Kim	EVP, Sales Business Unit
¹⁰⁾ Youngil Kim	EVP, Retail Banking Business Unit
¹¹⁾ Kitaek Hong	EVP, Corporate Banking Business Unit
¹²⁾ Sunghyun Chung	EVP, International Banking Business Unit
¹³⁾ Kisup Shin	EVP, Capital Market Business Unit
¹⁴⁾ Sungkyu Lee	EVP, Business Supporting Business Unit
¹⁵⁾ Seeyoung Lee	EVP, Credit Card Business Unit
¹⁶⁾ Woojung Lee	EVP, Trust Business Unit, National Housing Fund Business Unit

KB Code of Ethics

Preamble

We shall endeavor to make KB “a world-class retail bank” of choice that is characterized by honesty and trustworthiness.

We shall achieve this goal through fair and transparent management, and continuously enhance corporate values, making KB a bank that grows and develops with customers and shareholders.

We shall therefore actively carry out the principles of the “KB Code of Ethics”, which will guide our values, judgments and conducts

Chapter 01 Fundamental Principles

1. We shall exercise the highest standards in our judgments and conducts in respect to customer satisfaction and maximization of shareholder value.

We shall make efforts to continuously create and provide a full-range of valuable products and services to fulfill the needs of our valued customers, the very foundation on which this Bank stands. We shall protect our shareholders’ investments by enhancing corporate value through our transparent and efficient management.

2. We shall establish ethical values and approach our responsibilities in pursuance of the KB vision and policies

We shall maintain the highest level of dignity and ethics in discharge of our duties and in private life. Each member of the Bank staff shall strictly adhere to the Bank’s policies and procedures as stated in related laws, and KB Code of Ethics in fulfilling his or her responsibility as a member of the Bank.

3. We shall establish a healthy financial order and pursue mutual prosperity with interested parties.

We shall respect the free market economic system that allows free and fair competition, and endeavor to seek mutual progress through trust and cooperation with all interested parties.

4. We shall contribute to the development of the state and local communities.

We shall fully understand our social obligations as a corporate citizen, and faithfully implement and carry out our duties and responsibilities.

Chapter 02 Bank Management

1. Maximization of shareholder value

Our bank belongs to the shareholders. Our officers and employees will provide stable, long-term profits to the shareholders through rational and just decisions and transparent management.

A. We shall protect and support the value of the KB brand and corporate identity through appropriate PR and IR activities, including corporate communications concerning company developments and management performance.

B. We shall accurately record and manage financial records and accounting books of the Bank in compliance with the generally accepted accounting principles.

C. We shall respect the shareholders’ rights to be informed as well as their rightful requests and proposals, and will work to build mutual trust with the shareholders.

2. Customer satisfaction

We shall always think and behave from a customer’s point of view and shall do our utmost to achieve total customer satisfaction by providing the highest quality products and services.

A. We shall always listen to the opinions and proposals of our customers.

B. We shall safe-keep and maintain customer information according to related laws and regulations, while protecting their private lives and information.

C. We shall always serve our customers with politeness and courtesy through faithful and kind conversation, and promote the Bank’s reliability by demonstrating professional financial knowledge.

3. Enhancement of the Bank officers and employees’ quality of life.

We respect the officers and employees’ autonomy and creativeness, and we will work to improve their quality of life.

A. We shall create an environment that allows all Bank staff to work pleasantly and comfortably, and fully demonstrate their abilities.

B. We shall impartially evaluate the performance of each Bank staff member and reward him or her based on the results of his or her evaluation.

C. We shall provide equal opportunities according to the ability of each Bank staff member, and we shall not discriminate based on school relations, regionalism, kinship, gender or religion.

Chapter 03 Social Responsibility of the Bank

1. Compliance with laws and regulations

We respect proper social norms as a corporation, and comply with all state and local laws and regulations.

KB Code of Ethics

2. Contribution to social growth

We shall contribute to social growth by participating in social service activities that will enrich our society.

Chapter 04 Work Ethics for the Officers and Employees

1. General requirements

All the officers and employees of the Bank shall consider honesty and trustworthiness as their cardinal virtues, and shall pursue individual growth as well as the Bank's development through continuous self-development and proper implementation of the Bank's businesses.

A. In an age of unlimited opportunities and competition, we, the officers and employees, shall establish sound professional ethics and proactively challenge the changing future.

B. We shall take pride as an employee of the Bank and avoid involvement in any action that might damage the creditworthiness and prestige of the Bank. We will not perform any actions that might undermine the integrity of financial professionalism.

C. When an illegal or an improper action is discovered, we shall report it immediately according to the established procedures and do our best to resolve the problem instead of intentionally hiding it from others.

D. We shall not engage in any action that might cause sexual embarrassment such as sexual advances, jokes, physical contact, or any other action that contributes to the creation of a work environment that is threatening or unpleasant.

E. We shall not use our Bank's name, assets, job titles or duties of the Bank for political purposes; nor shall we participate or otherwise engage in political activities during working hours.

2. Proper execution of the Bank business

Our officers and employees will not get involved in any action that might hinder the proper execution of the Bank's businesses.

A. We shall not become involved in an economic favor such as taking money, gifts, or entertainment in relation to business, or in an action that might jeopardize our impartiality, such as accepting improper requests and surrendering to pressure.

B. When it is deemed necessary for execution of the Bank business to provide gifts or entertainment, they will be appropriate for the occasion and they will not violate the provisions of related laws and regulations.

3. Prohibition against conflict of interest

Officers and employees of the Bank shall protect the Bank assets.

A. When there is a conflict of interest between the Bank and other individuals, or among business divisions, the interest of the Bank shall take precedence over any other interests.

B. Officers and employees of the Bank shall protect the Bank's physical and intellectual property and business secrets, and shall not use them for private purposes.

C. Officers and employees of the Bank shall not engage in unfair practices such as the pursuit of private profits using their positions, or the sale of securities, real estate, or other assets by using any non-public information acquired from the bank.

D. Officers and employees of the Bank shall not, unless explicitly allowed under related laws and regulations, become a debtor of our Bank or provide personal or physical security for loans from our bank.

4. Mutual respect among the officers and employees

Officers and employees of the Bank shall respect each other and work together towards developing smooth and effective communication and building positive business cooperation for the growth and development of the Bank.

A. Officers and employees of the Bank shall observe basic etiquette required for a proper company atmosphere, and shall refrain from any conduct that is harmful to the maintenance of the organization.

B. Superiors shall not give improper orders to subordinates.

C. Subordinates shall comply with justifiable orders from a superior and decline any that is improper.

5. Management of information

Officers and employees of the Bank shall safe-keep and manage information of the Bank as precious Bank assets.

A. Officers and employees of the Bank shall prevent disclosing important bank information.

B. No one shall have access to the Bank information or its information system without proper authority. Officers and employees of the Bank shall take proper measures to prevent unauthorized persons from gaining access to such system.

C. Bank computer software shall be used only for Bank business and its use shall comply with the terms and conditions of the contract.

Board of Directors

1	2	3	4
---	---	---	---



Executive Directors

- | | |
|------------------------|---|
| 1) Sanghoon Kim | Chairman |
| 2) Jungtae Kim | President & CEO |
| 3) Sungnam Lee | Auditor & Executive Director |
| 4) Donald H. MacKenzie | Executive Vice President & Head of Risk Management Division |



1	2	3	4
5	6	7	8
9	10	11	12

Non-Executive Directors

- | | |
|---------------------|--|
| 1) Moonsoul Chung | Advisor, Mirae Corporation |
| 2) Sunjin Kim | President, Yuhan Corporation |
| 3) Dongsoo Chung | Ex-Deputy Minister, Ministry of Environment |
| 4) Richard E. Lint | Principal, Mercer Human Resources Consulting |
| 5) Kyunghee Yoon | Country Manager & Managing Director, ING Ltd., Korea |
| 6) Seoungwoo Nam | CEO, Pulmuone Co., Ltd. |
| 7) Sukyong Cha | President & CEO Haitai Confectionery & Foods Co., Ltd. |
| 8) Bernard S. Black | Professor of Law, Stanford Law School |
| 9) Kihong Kim | Professor of Business Administration, Chungbuk National University |
| 10) Eunjoo Park | CEO & Chief Editor, Gimm-Young Publishers, Inc. |
| 11) Cheolsoo Ahn | President & CEO, Ahnlab, Inc. |
| 12) Kyungbae Suh | President & CEO, AmorePacific Corporation |

Corporate Governance

Mission

The mission of the KB Board of Directors (the “Board”) is to protect and grow the interests of our shareholders, customers, employees and communities. The Board, which consists of 12 independent, non-executive directors and 4 executive directors, strives to incorporate best international standards in corporate governance, including transparency and disclosure.

The company engages external, independent consultants periodically to discuss global corporate governance issues and solutions, as well as to evaluate the Board and members’ performances. The company also encourages Board members to seek specialized consultation at the company’s expense.

Role

The Board members are selected based on their talents and experience from various areas, such as law, finance, economy, management and accounting. Each Board member takes an oath to KB Code of Ethics and has no special relationship to, or monetary interest in the company, beyond his or her compensation as a Board member. A non-executive director is elected for a one-year term and an executive director is elected for a three-year term. Terms are renewable.

The Board’s ultimate role is to provide strategic guidance for the future of the company and to evaluate the performance of our senior management team on behalf of our customers, shareholders, employees and communities:

- Business objectives and performance evaluations
- Major organizational changes such as dissolution, business transfer and merger
- Internal control standards
- Salaries of directors and employees
- Dividend policy
- Amendments of the Articles of Incorporation
- Other matters determined by law and the Board regulations

In 2002, the Board met nine times and separate committees met 19 times. The average attendance rate was above 80%.

Board Composition and Responsibilities

We currently have six management committees that serve under to the Board:

- [the Board Steering Committee;](#)
- [the Audit Committee;](#)
- [the Management Strategy Committee;](#)
- [the Risk Management Committee;](#)
- [the Compensation Committee; and,](#)
- [the Non-Executive Director Nomination Committee.](#)

Each committee member is appointed by the Board, except for the members of the Audit Committee, who are elected at the general meeting of shareholders. All committee heads are independent, non-executive directors, except for the Board Steering Committee, which is chaired by the company’s Chairman.

[Board Steering Committee](#)

The Board Steering Committee is responsible for ensuring the efficient operations of the Board and the facilitation of the Board’s functions, including the review of the Board’s structure and its effectiveness to service its fiduciary duty.

The Board Steering Committee assumes a leadership role among the committees and installs checks and balances to ensure cohesiveness among the committees and the organization, while fostering the committees’ independence and flexibility to set and achieve their performance targets.

[Audit Committee](#)

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, financial statement issues and the administration of our financial affairs by the Board.

During the general meetings of shareholders, the Audit Committee examines the shareholder agenda, and the integrity of the financial statements and other reports

submitted by the Board to the shareholders. The committee promotes the independence of both the internal and external auditors, and reviews their compliance with legal and regulatory requirements.

The Audit Committee is independent from the Board and reports directly to the Chairman of the Board. It is the only committee whose members are elected at the general meeting of shareholders. It consists of four external members and one internal member. The committee is supported by over 100 specialists who generally have minimum of five-year commitments to their roles. We currently have a process in place in which management must fully comply with the requests of the Audit Committee.

External Auditors

Samil Accounting Corporation & Price Waterhouse Coopers
Kukje Center Building 21st Flr.

191 Hangangro 2ga Yongsanku, Seoul 140-702, Korea

(Yongsan P.O Box 266, 140-600)

Tel: (822)-709-0800

Fax: (822)-709-0850

Management Strategy Committee

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 it deems necessary.

Risk Management Committee

The Risk Management Committee oversees and makes decisions on all issues relating to our comprehensive risk management function, including internal control. In order to ensure our stable financial condition and to maximize our profits, the committee establishes risk management strategies, determines and reviews the bank's risk tolerance and exposure, and risk management operations, including compliance with risk limits and risk policies.

Compensation Committee

The Compensation Committee oversees our overall compensation strategy and ensures that our directors are compensated in a manner consistent with the compensation strategy and requirements of the appropriate regulatory bodies. The committee is responsible for setting the criteria and levels for director compensation and benefits, and reviewing and assessing the director compensation programs. It also oversees the planning of executive succession.

Non-Executive Director Nomination Committee

The Non-Executive Director Nomination Committee oversees the qualification of our Board members. The committee is responsible for both recommending and reviewing a candidate for directorship and committee, and overseeing retainer arrangements to attract qualified directors.

2003 Objectives

Establish a disclosure committee and an investor relations (IR) disclosure specialist

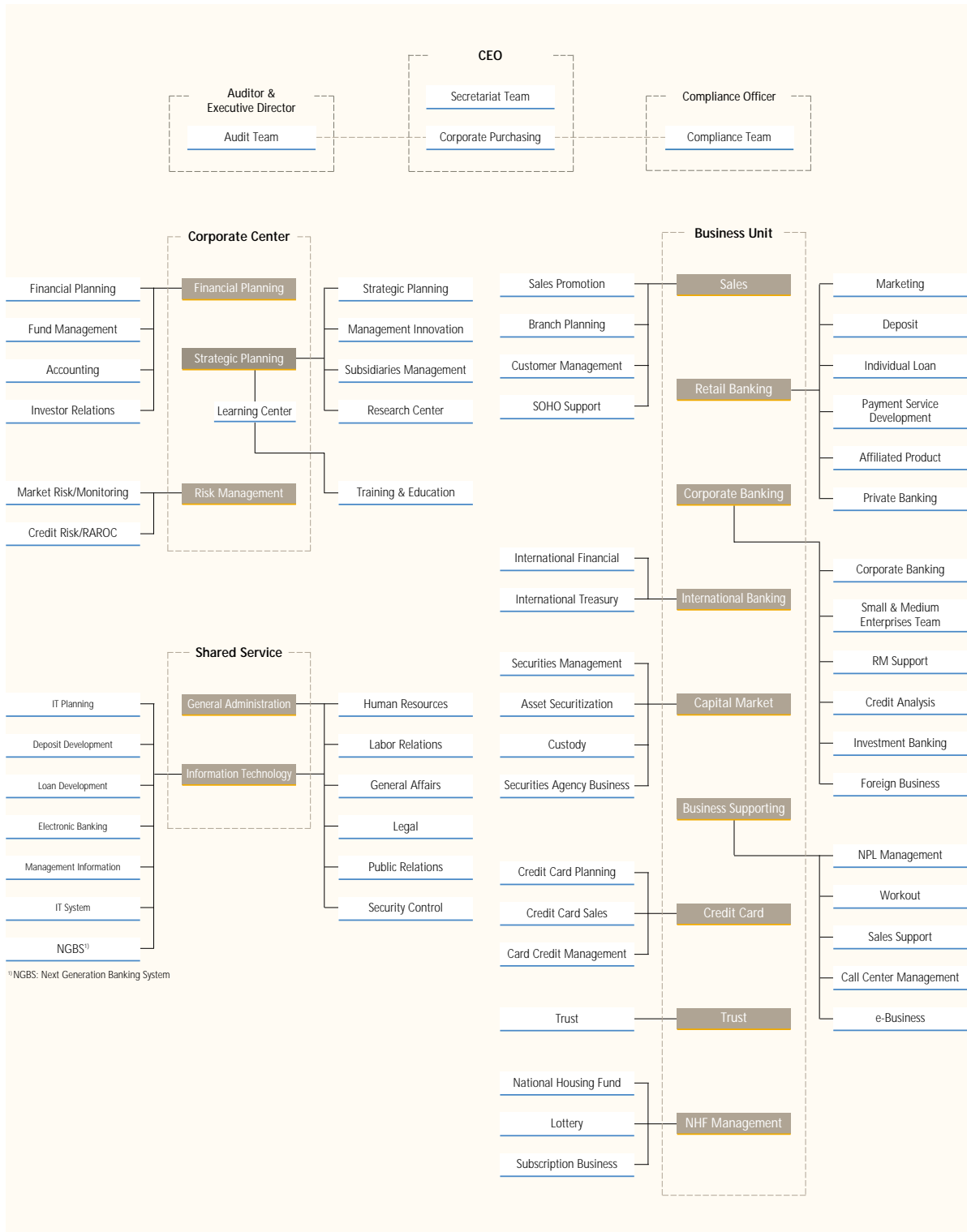
Develop Board and executive compensation system that strongly links performance with the long-term interests of the bank

Continue to explore and implement best global standards in corporate governance

Build trust and enhance company image through the KB Code of Ethics

Organization Chart

14 Divisions/Business Units, 62 Teams



¹⁾ NGBS: Next Generation Banking System

Multi-Specialist Growth Strategy

We specialize as an advisor and convenience provider by identifying the unique needs of our customer segments and offering differentiated distribution channels

KB's multi-specialist growth strategy is to focus on what we do best, which are to develop and outsource high quality financial products and services (product provider), create highly efficient process and information technology (processor), and build marketing-and-sales competence with differentiated distribution channels for our customer segments (distributor).

Our multi-specialist strategy will capitalize on our competitive advantages, including our unrivaled distribution network and customer base, economies of scale, and a performance-based culture that attracts highly skilled employees.

Our business philosophy is that we should select and concentrate on what we do best, and then leverage those strengths to enter new, select, attractive markets. For example, we plan to increase our commissions and fees income from non-interest-rate-sensitive products and services in bancassurance, asset management, financial advisory, and real estate, among others. These markets will help KB diversify its revenue base and provide another platform for building our customer base.

We currently lead the retail and small- and medium-sized enterprises (SMEs) banking markets. These two markets have been, and will continue to be our targeted customer segments because of both our historical development and our accumulated expertise. Within the retail market, high-net-worth (HNW) and affluent customer segments are very attractive due to their high margins and cross-selling opportunities presented by the growing personal financial

services (PFS) market. The SME and small-office and home-office (SOHO) segments are more attractive than large corporate segment due to SMEs and SOHOs' less sensitivity to price competition.

Product Provider, Processor and Distributor

Product Provider- We provide integrated financial services for our customers.

We develop top quality products in deposits, credit cards, mortgages, personal loans, SME loans, B2B payments, on-line/mobile payments and cash management, among others. We also provide high quality third-party offerings, such as insurance and investment products. With guidance from our risk management and marketing teams, we offer competitively priced and positioned products and services using effective marketing approaches such as offering discounts to generate incentives for subscribing to additional products and services.

Processor- We develop a highly efficient infrastructure and information technology.

We create the optimal-structured infrastructure for conducting our businesses. These include a centralized call center for handling customer inquiries and a centralized back-office function for processing routine tasks such as loan processing, bill payment and workout. These centralized functions allow our branches to focus on higher-value-added marketing activities such as cross-selling and financial advisory.

Our business philosophy is that we should select and concentrate on what we do best, and then leverage those strengths to enter new, select, attractive markets, such as bancassurance, asset management, and real estate, among others

Information Technology (IT)

In September 2002, KB successfully merged the IT systems of the former Kookmin Bank and the former H&CB, and consolidated 70 million accounts. As a part of our IT integration, we strengthened our security system by implementing Sysplex (also known as "multi-host system"), which allowed us to increase our system capacity and sustain our multi-host system in the event of system failures. We also replaced and upgraded our IT software and equipment, including servers, CPUs, terminals, ATMs and telecommunications devices.

While we believe that our current IT system has the sufficient capacity and functionality to support our current operations effectively, we are creating a step-ahead advantage for the future by adopting a new computer system, internally called, "the next-generation banking system (NGBS)." NGBS is based on a component-based architecture (which means it acts like LEGO building blocks) allowing users the flexibility to build in, modify and integrate new components as needs arise, without affecting the centralized information already in place.

Distributor- We create marketing-and-sales competence with differentiated, effective distribution channels for our customer segments.

We specialize as an advisor and convenience provider by identifying the unique needs of our customer segments and offering differentiated distribution channels:

HNW customers-

private banking with financial, legal and tax consulting services

Affluent customers-

VIP rooms and specialized advisory bankers

Upper mass customers-

Sales Stimulation Program (SSP) aimed at identifying customers' needs and promoting cross-selling abilities

Mass customers-

cost-effective channels, such as ATMs, Autobanks and internet banking

SME customers-

relationship managers and corporate branches

SOHO customers-

SOHO teams in the branches

Large corporations-

centralized, professional corporate finance teams

We also create optimization in our distribution network through restructuring activities. We have, and will continue to convert traditional full-service branches into focused specialized branches, update ATMs to conduct multi-functional tasks, enhance our centralized call center to act as another distribution network, and build credibility into phone, mobile and internet banking solutions.

Risk Management

Overview

As a financial service 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 established to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk, and operational risk. To address these and other risks in our business, we manage our risks within acceptable limits to ensure the soundness of our assets.

Risk Management 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, policies, and

procedures. The following chart sets out the various levels of our risk management system:

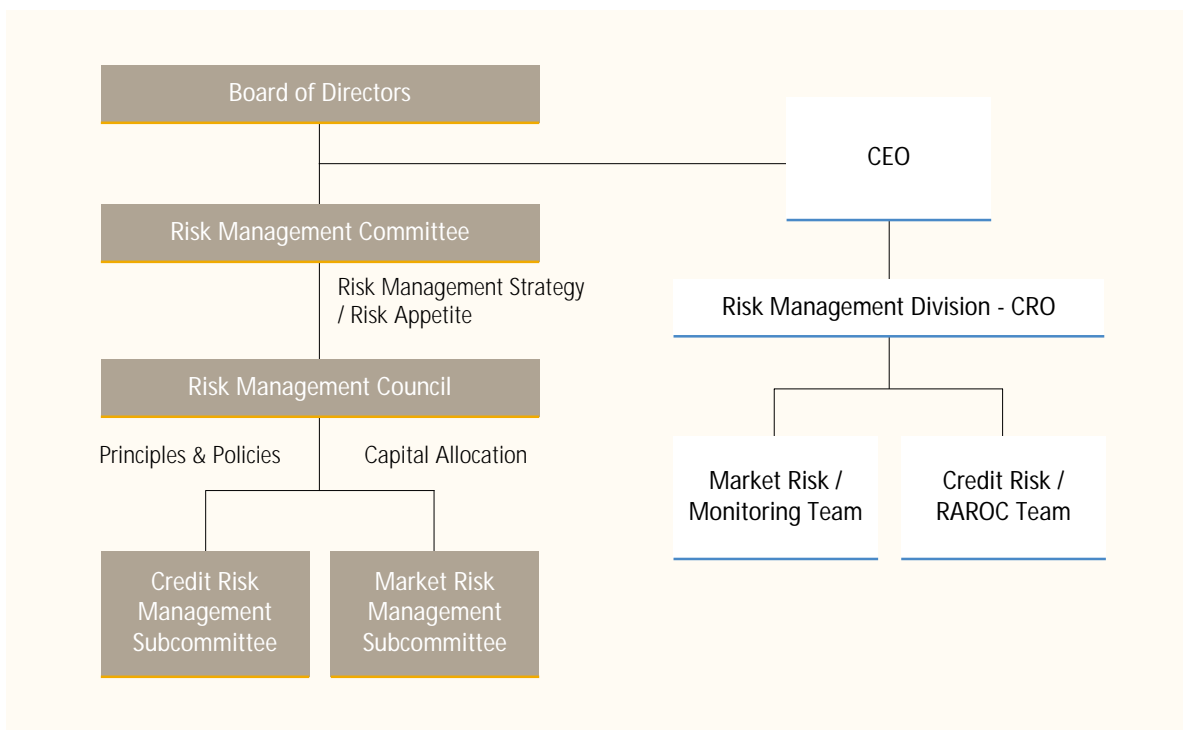
Risk Management Committee

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

- Establishing risk management strategies in accordance with the directives of the Board of Directors;
- Determining the bank's risk tolerance; and
- Reviewing the level of risks we are exposed to and the status of our risk management operations.

Risk Management Council

The Risk Management Council is the executive decision-making body for our risk management operations. Its responsibilities include:



Determining basic principles and major policies for risk management;

Setting limits for integrated risk levels and each type of risk;

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;

Creating and amending the regulations for risk management activities; and

Performing any other duties delegated by the Risk Management Committee.

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.

Market Risk Management Subcommittee, which sets market risk limits, determines which 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.

Risk Management Division

Our Risk Management Division is responsible for identifying, measuring, monitoring, and reporting on risks. The Chief Risk Officer is responsible for the Risk Management Division, and a member of the Management Council. The Risk Management Division is divided into two teams - Market Risk/Monitoring Team and Credit Risk/RAROC Team.

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 two risk management teams are the main execution bodies within our risk management system. They act independently from our other business groups in order to enhance the effectiveness of our risk management policies.

Credit Risk Management

Credit risk is the risk of losses in the event of borrower or counterparty defaults. Credit risk management aims at improving asset quality and generating stable profits while reducing risk through diversified and balanced loan portfolios. Credit risk management begins with an assessment of the risk of losses resulting from borrower or counterparty default. The creditworthiness of each type of borrower or counterparty is determined by credit experts or credit rating system, and credit limit is set for each borrower or counterparty.

All credit exposures, whether on- or off-balance sheet, are assessed. These exposures include loan exposures to counterparties, securities, letters of credit, bankers' acceptances, derivatives and commitments. Using statistical techniques, we compute economic capital quarterly with respect to total assets, which we refer to when we set the bank-wide risk appetite, and allocate available capital to each business unit based upon attributed economic capital. Profiles of credit risk at bank-wide level and by business unit, industry and account are measured and reported quarterly through our information system to the senior management, Risk Management Committee and relevant business units. Our quarterly RAROC report contains information, such as economic capital, risk-adjusted return on capital (RAROC) and economic value added (EVA) by business unit.

Expected default rates and recovery rates are used to determine expected loss rate of a borrower or counterparty, and the expected loss rate is used for credit-related decisions including pricing, loan approval and establishment of standards to be followed at each level of decision-making authority.

Loan Portfolio

The Korean economy in 2002 showed a healthy growth assisted by a bullish domestic market. Financial market was stable due to low interest rate policy by Bank of Korea, which resulted in a decline of long-term interest rates and financial institutions' loan/deposit rates, narrowing of long- and short-term rate gap and shrinking of corporate bond credit spread. Also, low loan demand for corporate investment and abundant market liquidity resulted in corporate default rates

Risk Management

remaining low. However, low interest rate and excessive liquidity brought about a sharp increase in household loans and credit card usage, and a significant portion of these funds flowed into the housing market resulting in sudden rise of house price. Also, household consumption exceeding income growth rate has produced side effects such as increase of overdue and impaired household loans.

KB, the biggest retail bank in domestic market, experienced a healthy growth of assets in 2002. In particular, housing loans marked a 33.6% year-over-year growth from KRW25.35 trillion in 2001 to KRW33.87 trillion in 2002. This was led by increased demand for consumer borrowings due to low interest rates and high house premium. Also, given the bank's preference for stable assets, the overall household credits marked a 22.5% growth compared to the previous year. With big growth of household consumption, credit card credits rose by 22.2% from KRW4.7 trillion in 2001 to KRW5.7 trillion in 2002.

sources, corporate credits to SMEs showed a big growth of 31.5% from KRW27.89 trillion in 2001 to KRW36.66 trillion in 2002 while those to large corporates declined by 19.5% from KRW5.8 trillion to KRW4.7 trillion.

Our securities portfolio, in contrast to the loan portfolio, decreased substantially from 2001 to 2002. Corporate bonds marked a 14.5% decrease from KRW13.67 trillion to KRW11.69 trillion in total. Trading and investment bonds recorded a 42.5% decrease from KRW584 billion to KRW336 billion and a 13.2% decrease from KRW13.08 trillion to KRW11.35 trillion, respectively.

In order to enhance our asset quality management, we have changed the loan management process (letting branches manage short-term overdue household and credit card credits, which had been managed by the processing center), increased the intensity of our monitoring of overdue loans, and raised the provisioning rate. Also, in response to tightened asset quality regulations for household loans, we have lowered the

Asset Quality and Allowance for Possible Losses

(In billions KRW)

	Total credits		Substandard & below credits		Allowance for possible losses	Provision for possible losses ¹⁾	Write-off
	2001	2002	2001	2002	2002	2002	2002
Corporate	47,192	51,673	3,033	2,252	1,153	129	693
Household	61,022	74,756	804	1,277	1,061	654	226
Credit card	4,706	5,749	178	292	284	773	672
Total	112,920	132,178	4,015	3,821	2,498	1,556	1,591

¹⁾ Only for banking account

In order to tackle consumer credit risk more effectively, we raised the provisioning rates for possible losses on household and credit card credits and applied more conservative LTV (loan-to-value) to housing loans. In addition, we reinforced individual credit scoring system, upgraded overdue loan management system and cut down credit limits for credit card members.

Due to the efforts to diversify exposures and seek new profit

LTV for housing loans (55% in November 2002), adjusted credit rating, received partial collection and/or charged additional rate on household loans (new & roll-over) considering insolvency signs.

Currently, in spite of increasing concern about impairment of household loans, our credits are largely immune from possible loss. Housing loans that are covered by collateral and have high recovery rate in case of insolvency make up 80% of our

household portfolio. Unsecured loans are well diversified across numerous small accounts, with an average balance of only KRW5.8 million.

Credit card credits, which rapidly increased from 2001, have started to deteriorate in quality since the second half of 2002, resulting in the increase of provision for possible losses in 2002. However, delinquencies on credit cards are expected to stabilize in the second quarter of 2003, as credit card portfolio is composed of accounts with smaller balances than household credits. Also, we strengthened the credit card management through reducing limit for credit card members showing insolvency signs and making provisions for unused limit of credit card cash advances.

Provisions for possible losses for corporate loans in 2002 amounted to KRW129 billion owing to sufficiently reserved provisions in 2001. With the purpose for enhancing corporate credit risk management, we have continuously reduced loans to large companies. Also, in order to manage credit risk for

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 Council and the Market Risk Management Subcommittee.

Daily VaR of Trading Position

As of the end of December 2002, the daily VaR of the Bank's trading position, with a confidence level of 99%, is KRW6.9 billion, which explains the daily maximum potential loss in the current trading position from adverse market changes in equity prices, interest rates, and foreign exchange rates.

In the below table, VaR Ratio of the equity portfolio shows the highest among the Bank's portfolios due to high price volatility in the equity market. Since August 2002, interest rate has been on downward trend together with its low volatility. The stock market has been volatile because of growing uncertainties in the geopolitical environment.

The negative correlation between equity prices and bond

(In billions KRW)

Classification	As of the end of Dec. 2002			From Jan. 2002 to Dec. 2002	
	Position	VaR	VaR Ratio ¹⁾	Maximum	Minimum
Equity ²⁾	152.5	8.2	5.38%	30.9	8.2
Bond	5,345.1	3.3	0.06%	14.1	3.3
F/X	(61.5)	0.4	0.71%	1.9	0.1
Derivatives	-	1.0	-	2.7	0.6
Total	5,436.1	6.9	0.12%	24.5	6.9

¹⁾ VaR Ratio = VaR / Market Value

²⁾ including KRW96.8 billion of Equity Oriented Fund (EOF) entrusted to KBITM in 2001. (EOF is recorded as available-for-sale investment securities)

SMEs, we curtailed the credit approval power of general managers in branches and strengthened credit monitoring and review.

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. We generally manage our market risk

prices continues. Nevertheless, the degree of negative correlation is declining due to market recognition that domestic bond rates have less room to drop given the low level (5%) of benchmark KTB 3yr.

Business Environment

Retail Banking

The competition in retail banking was intense in 2002. Banks competed against each other with low lending rates in household and mortgage loans. KB focused on profitability in 2002 and maintained among the highest lending rates and lowest deposit rates in the industry.

We gained a solid 23.5% increase in total household loans to KRW74.3 trillion in 2002, up from KRW60.2 trillion in 2001. Home equity and consumer loans were up by 16.1% to KRW40.4 trillion, from KRW34.8 trillion in 2001. Mortgage loans grew by 33.5% to KRW33.9 trillion; however, due to heavy price competition among 10 largest banks, our market share declined to 35.9% in 2002, from 40.7% in 2001.

Total deposits grew by 6.9% to KRW125.2 trillion in 2002. The less-than-anticipated growth was due to the following reasons: (i) falling interest rates and competing higher-returns investment products; (ii) KB deposit interest rates, which were lower than its competitors; and, (iii) the general decline in the ratio of savings to disposable income. Our core deposits, or low-cost funding source, increased by 9.7% to KRW40.9 trillion. Time & Savings grew by 3.2% to KRW78.1 trillion and CD, RP, etc was up by 47.6% to KRW6.2 trillion.

Uncertain economic conditions and lower real GDP, consumer spending contraction, and real estate market stability will lead to decelerated growth in 2003. In such an environment, we

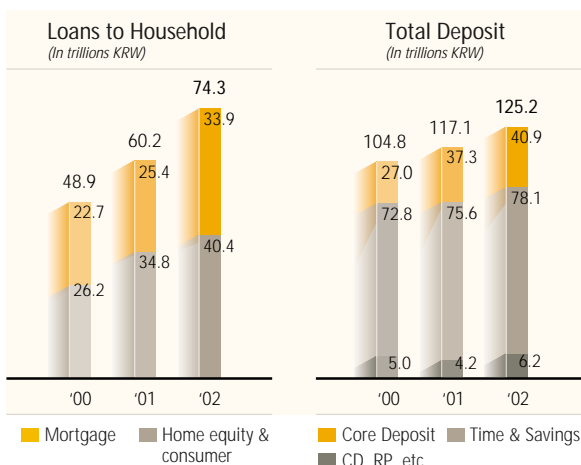
will continue to pursue profit-oriented selective loan growth with focus on risk management and asset quality. This may mean sacrificing market shares where price competitions are prevalent; however, our objective is to create stable, diversified, profitable sources of income. In order to improve our product-and-service cost structure and to better serve each of our customer segment's unique needs, we plan to focus on offering products and services through differentiated, effective marketing and distribution channels, i.e. private banking branches for high-net-worth and affluent retail customers and ATMs and Autobanks for mass customers.

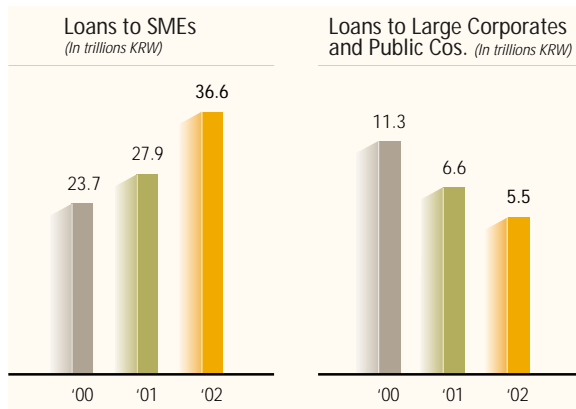
The outlook for the PFS market is bright. With the ageing, affluent and high-net-worth customers expecting to grow in big numbers, these customers present attractive business opportunities for financial institutions. These customers have complex financial needs and seek multiple financial products to achieve their financial goals. We expect fierce competition for this highly attractive customer segment. Our quest is to be a one-stop financial partner for the total asset management of our customers' financial resources by developing or outsourcing high-quality products and services in insurance, real estate and investment funds. We will leverage our strength in retail banking to expand our non-interest income from fees and commissions, reducing our vulnerability to interest-sensitive profit sources.

Corporate Banking

In corporate lending, most banks announced their intention to focus on the SME loans sector due to the growing SME market and its less sensitivity to price competition. Hence the competition in the SME loan sector was intense in 2002 and will continue to be so in 2003. Our total corporate loans grew by 22%, up from KRW34.5 trillion in 2001 to KRW42.1 trillion in 2002. The growth is from an increase in our loans to SME, up by 31.2% to KRW36.6 trillion. Loans to large corporations and public companies declined by 17.4% to KRW 5.5 trillion, due to the following reasons: (i) high-quality, large corporations' decreasing reliance on traditional bank financing; (ii) sufficient liquidity and easy access to capital markets; and, (iii) our intention to reduce exposure to large corporations.

With the growing reliance of large corporations on the





capital markets for their financial needs, and the heavy price competition for blue-chip corporations, most banks will focus on SME and SOHO customers. The criteria for success will be customer service based on speedy and accurate loan processing and payment, quality of loan specialists, and risk management. We plan to maintain our leading position in the SME/SOHO market, which was 22.9% at the end of 2002, by targeting customers with strong business fundamentals and records of achievement. We will utilize our centralized back office function for efficient loan processing and payment, train and employ loan specialists who can proactively manage loan portfolios to produce high quality assets, and create credit rating and risk assessment models. Our relationship managers will also enhance our customer service by providing advice about business operations and management consulting, accounting, and capital structure.

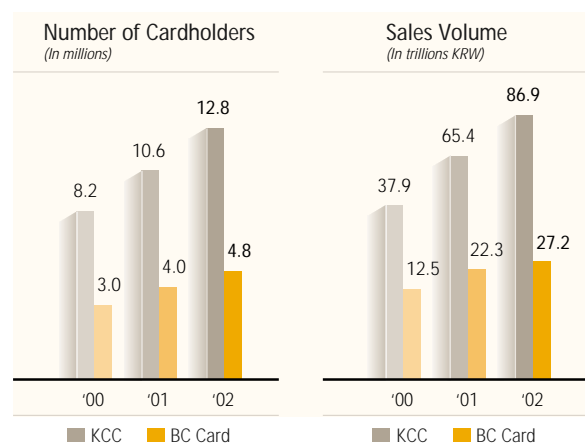
Credit Card Operations

As a result of the merger between Kookmin Bank and H&CB, we manage two credit card operations through our 4.95% interest in BC Cards Co. Ltd. and our largest subsidiary, Kookmin Credit Card (KCC).

In 2002, the Korean government instituted several guidelines and regulations to discourage the rapidly rising household debt and to prepare for the rising credit card risks. One of these measures included an increase in the provision level set against earnings. Because of such

regulations and rising delinquency, our profitability in the second half of 2002 suffered despite the increases in the number of cardholders and sales volume. The combined number of cardholders at KCC and BC Card increased by 20.5%, up from 14.6 million in 2001 to 17.6 million in 2002. The combined sales volume at KCC and BC Card grew by 30.1%, up from KRW87.7 trillion in 2001 to KRW114.1 trillion in 2002.

We expect a challenging operating environment in 2003 due to contractions in consumer consumption, continued government regulations, and the general uncertainty in economic growth. We plan to focus on creating new markets and new credit card products. For example, we will actively target the leisure sector, recently created with the change in the country's six-day-work week to a five-day-work week, and the government sector, which plans to utilize "government purchase cards" to buy goods and services. In today's challenging credit environment, we plan to focus our attention on credit management. We are currently developing effective credit scoring and fraud protection models, which will also be able to predict potential credit risks and put credit limits based on customer behavior and financial position.



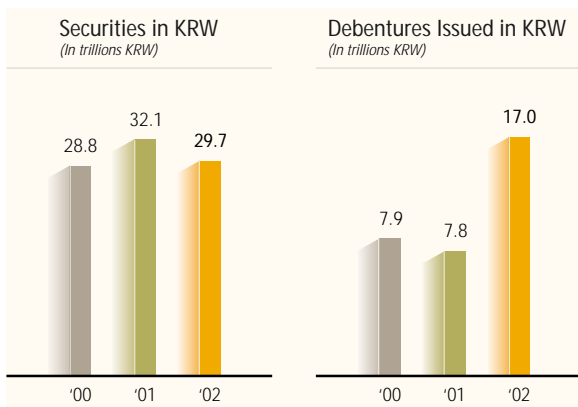
Business Environment

Capital Markets and International Banking Activities

Capital Markets

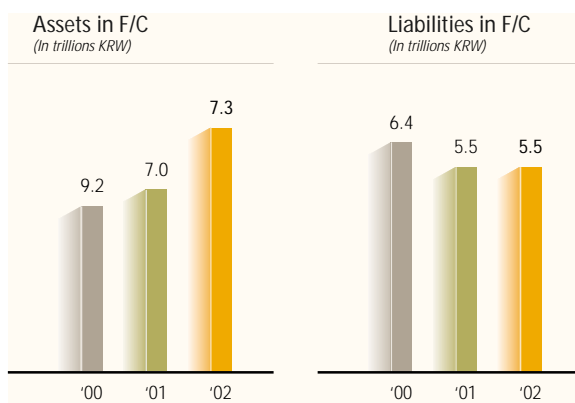
Our trading and investment portfolio had a balance of KRW29.7 trillion in 2002, a decrease of 7.5% from KRW32.1 trillion in 2001. The decrease in the balance is due to our sale of securities, proceeds of which were used to extend loans. Also, our won-denominated debenture issues dramatically grew by 118.0%, up from KRW7.8 trillion in 2001 to KRW17.0 trillion in 2002 in order to supplement deposits.

We plan to increase our presence in capital markets. With the growing development of the Korean securities market and deregulation, we expect to expand our fee income from new profit sources such as asset-backed securities, custody and agent management. Our goal is to maximize profits by decreasing stock trading costs and be an active player in the mutual and index funds. We are also working to employ advanced risk management procedures and tools to create stability in our portfolio.



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.

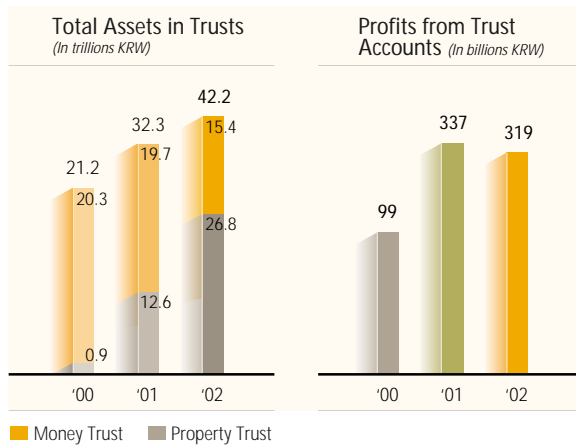
The principal activities of our overseas branches and subsidiaries are providing trade financing and local currency funding for Korean companies and Korean nationals in the overseas market and providing foreign exchange services in conjunction with our headquarters. On a limited basis, our overseas branches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

Our total asset in foreign currency grew by 4.3% to KRW7.3 trillion in 2002, up from KRW7.0 trillion in 2001.

We plan to maintain our market leadership in international finance by further strengthening our role in foreign exchange and derivatives activities as a market leader. We are also looking for opportunities in foreign, developing countries as they go through their own banking deregulations, a process that Korea has gone through recently. In March 2003, we opened a representative office in Guangzhou, China to explore potential collaborations with local Chinese banks.

Trust Services

We provide various trust account management services as another platform for building our customer base.



The balance of our total assets in trust services grew by 27.1% to KRW42.2 trillion in 2002, up from KRW32.3 trillion in 2001. The growth is entirely from our property trust accounts, which increased by 113.8% to KRW26.8 trillion, up from KRW12.6 trillion in 2001. However, our money trust accounts decreased by 21.8% to KRW15.4 trillion, down from KRW19.7 trillion in 2001. The decrease is due to the fact that non-marked-to-market funds were phased out, and the less attractiveness of money trusts during the low interest rate environment.

Our profits from trust accounts declined by 5.4% to KRW319 billion in 2002, from KRW337 billion in 2001. Despite the increase in the total assets, our profits were lower because property trusts earn lower commission fees than the money trusts.

We expect a further decline in trust-related revenues in 2003 as the low interest-rate environment continues and the government's decision to prohibit the offering of principal-guaranteed funds begin to have an impact (except for pension-type money trusts). As the trusts roll over, it will be critical for KB to provide specialized counseling on guiding customers as to where to roll over their maturing balances. We expect the decreasing demand for trust services to be offset by an increasing demand for new services in asset management and corporate pension products.

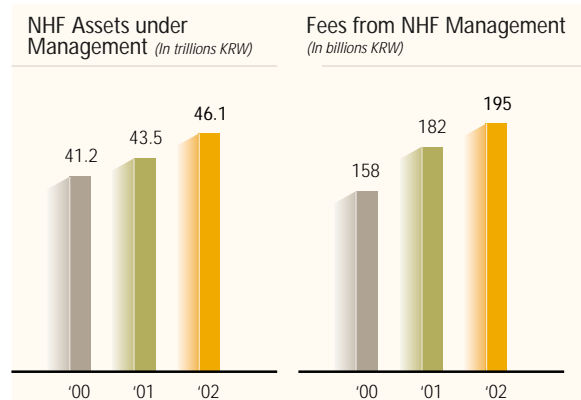
Management of the National Housing Fund (NHF)

We 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. The activities of the National Housing Fund are funded by: (i) loans from the Korean government; (ii) the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings; (iii) subscription savings deposits held at the National Housing Fund; and, (iv) the sale of lottery tickets.

NHF asset under our management increased by 6.1% to KRW46.1 trillion in 2002, from KRW43.5 trillion in 2001. And our fees from NHF management grew by 7.1% to KRW195 billion in 2002, up from KRW182 billion in 2001 due to the strong real estate market.

Prior to 2002, the government designated KB as the sole manager of the NHF. However, in 2002, the government decided to increase the competition in fund management by inviting two more banking institutions to compete. We believe we possess an advantage over our competitors. We have economies of scale and an expertise that will take time for our competitors to replicate. We plan to protect our competitive advantages by attending to our existing customers and seeking new customers. In 2003, we plan to install a performance measurement system and an employee incentive system and expand our Lotto (lottery) fees from ticket sales by improving the existing sales distribution and marketing activities. We also plan to promote "Real Estate Village," an internet site where customers can obtain information about the housing market and other related news and information, as a platform for selling KB mortgage products and services.

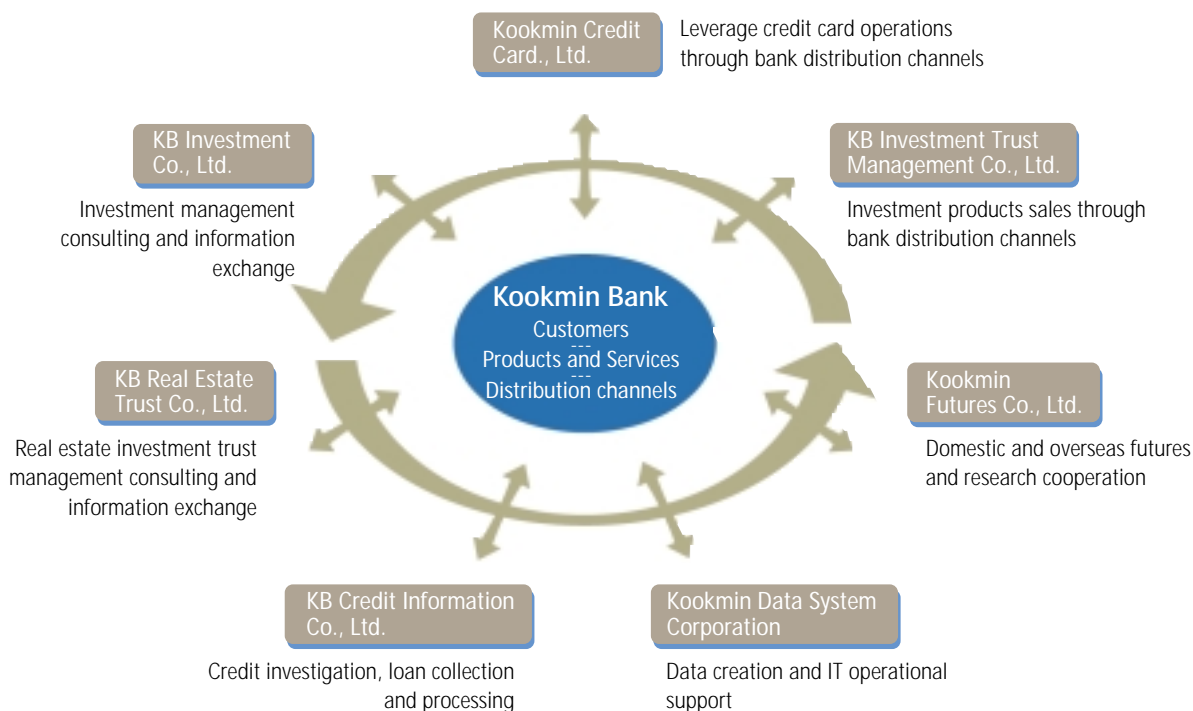


Business Environment

Subsidiaries

The following table provides summary information for our domestic operating subsidiaries, which are consolidated in our consolidated financial statements.

Subsidiary	Establishment Date	Ownership Level (%)
Kookmin Credit Card., Ltd. (credit cards, installment financing, factoring, payment guarantees, insurance agent, travel services)	87.09.25	74.27
KB Real Estate Trust Co., Ltd (real estate brokerage, development and advisory, land and rental trusts,)	96.12.03	99.99
KB Investment Co., Ltd. (invest and finance in venture companies, new business support and advisory)	90.03.27	99.89
KB Investment Trust Management Co., Ltd. (securities investment trusts, investment consulting)	88.04.27	80.00
Kookmin Futures Co., Ltd. (broker-dealer for domestic & overseas futures transactions)	97.03.18	99.98
Kookmin Data System Corporation (IT solutions, sales and administration)	91.09.06	99.98
KB Credit Information Co., Ltd. (loan collection, credit investigation, processing service)	99.10.09	62.57



(In billions KRW)

Total Assets	Shareholders' Equity	Operating Income	Net Income	Gain/(Loss) on Valuation of Equity Method
13,381	918	(306)	(261)	(194)
301	88	10	9	9
100	74	(31)	(34)	(119)
63	57	17	16	13
39	25	2	3	3
18	14	2	2	2
21	14	4	3	2

KB subsidiaries provide another source of growth for our business model. Prior to the merger between Kookmin Bank and H&CB, there were 13 subsidiaries between the two banks. We have since engaged in various dispositions and restructuring activities with our portfolio of subsidiaries to ensure that we only engage in markets where our subsidiaries and KB can create value. Currently, we have seven subsidiaries operating in Korea.

With respect to the management of our subsidiaries, our basic principles are to support our subsidiaries in establishing leading positions in their respective markets, helping advance profitability-focused management, and sustaining the presence of mutual benefits among the bank and its subsidiaries.

In order to create synergistic opportunities constantly between KB and its subsidiaries, our management meets frequently with its subsidiary counterparts.

Financial Section

39	Management's Discussion & Analysis (MD&A)
47	Report of Independent Accountants (Non-Consolidated Banking Accounts)
49	Non-Consolidated Balance Sheets
50	Non-Consolidated Income Statements
51	Non-Consolidated Statements of Appropriations of Retained Earnings
52	Non-Consolidated Statements of Cash Flows
54	Notes to Non-Consolidated Financial Statements
103	Balance Sheets (Trust Accounts)
104	Income Statements (Trust Accounts)
105	Notes to Financial Statements (Trust Accounts)
117	Report of Independent Accountants (Consolidated)
119	Consolidated Balance Sheets
120	Consolidated Income Statements
121	Changes in Consolidated Shareholders' Equity
122	Consolidated Statements of Cash Flows
124	Notes to Consolidated Financial Statements

Management's Discussion and Analysis

Please Note: Some figures are provided for year-over-year comparison purposes only and may differ from those that are found in the audited financial statements in this report. Specifically, the figures for 2000 and 2001 may differ due to our use of pro-forma figures for the merger of Kookmin Bank and H&CB.

The official accounting standard used in our audited financial statements is the purchase method, with the former Kookmin Bank being the acquiring entity.

Results of Operations ----- Summary for 2002

Executive Summary

In 2002, net income amounted to KRW1,310 billion, which represented a 11.8% (KRW176 billion) decrease from KRW1,486 billion in 2001. Pre-provision income was KRW3,596 billion, a 2.4% (KRW89 billion) decrease compared with KRW3,685 billion in 2001. The decrease was from an increased provision for loan losses, which increased from KRW1,356 billion in 2001 to KRW1,556 billion in 2002, and increased losses on valuation using equity method accounting, from a gain of KRW427 billion in 2001 to a loss of KRW274 billion in 2002. These negative factors offset the increased interest income, from KRW4,356 billion in 2001 to KRW4,914 billion in 2002, and an increase in non-interest income, from KRW1,329 billion in 2001 to KRW1,505 billion in 2002. However, the operating income before provisioning increased by a strong double-digit growth of 14.5%, showing that the Bank's earning potential has been maintained.

Total banking assets rose by 9.3% (KRW14.6 trillion) over the prior year to KRW171.5 trillion in 2002. Shareholders' equity rose by 12.4% (KRW1.1 trillion) to KRW10.0 trillion, due mainly to a net income accretion.

ROA and ROE were recorded at 0.81% and 13.04%, respectively. The cost-income ratio slightly improved to 41.7% in 2002 from 42.2% in 2001. BIS capital adequacy ratio stood at a stable 10.41%.

The Bank addressed the bad asset issue in 2002 by taking it off of the balance sheet, with a charge against earnings, which led to a substantial reduction of non-performing loans (NPLs). As a result, substandard & below credits ratio decreased by 0.67% point over the prior year to 2.89%.

Net Income

In 2002, net interest income grew by 12.8% over the prior year to KRW4,914 billion, due to the growth of interest-earning assets and an expansion of net interest margin. Also, non-interest income increased by 13.2% to KRW1,505 billion due to an increase in commissions on credit card and other commissions in won.

Administrative expenses rose by 10.6% to KRW2,551 billion, mainly due to post-merger IT integration costs and KRW78 billion in amortization of goodwill. (As result of the merger with H&CB, the Bank recorded KRW705 billion of goodwill, which is subject to amortization for 9 years from November 2001, using the straight-line method.)

Provision expenses for the year was KRW1,602 billion, up by 19.9% from the previous year, reflecting the increased provisioning burden in household and credit card sectors.

Accordingly, operating income increased by 11.0% to KRW2,266 billion. Whereas, non-operating income significantly dropped by 362.8% to a loss of KRW372 billion, from a gain of KRW142 billion in 2001. This sharp decline is attributable to the KRW194 billion loss on valuation of Kookmin Credit Card, a 74.3% owned subsidiary, using equity method accounting, and the KRW272 billion impairment loss on investment securities of several workout companies, including Hyundai E&C. As such, net income at the end of 2002 amounted to KRW1,310 billion, a 11.8% (KRW176 billion) decrease compared with the previous year.

Management's Discussion and Analysis

Income Statement Summary

	(In billions KRW)			
	2000	2001	2002	Change
Net interest income	3,767	4,356	4,914	12.8%
Non-interest income	859	1,329	1,505	13.2%
Administrative expenses	1,919	2,308	2,551	10.6%
Provision expenses	1,059	1,336	1,602	19.9%
(Provision for loan losses)	1,038	1,356	1,556	14.7%
Operating income	1,648	2,042	2,266	11.0%
Operating income before provisioning	2,707	3,378	3,868	14.5%
Non-operating income	144	142	(372)	(362.8%)
(Gain on valuation using equity method)	191	427	(274)	(164.0%)
Income before tax	1,792	2,183	1,894	(13.3%)
Income tax expenses	549	697	583	(16.3%)
Net income	1,243	1,486	1,310	(11.8%)
Income before provisioning	3,009	3,685	3,596	(2.4%)

Net Interest Income

Total interest revenues decreased by 8.3% from KRW11,978 billion in 2001 to KRW10,989 billion in 2002, primary due to a 4.5% decrease in interest income on loans and a 22.6% decrease in interest on securities. Total interest expenses dropped to KRW6,075 billion in 2002 from KRW7,621 billion in 2001, primary due to a 21.4% decrease in interest expense on deposits. Whereas the interest paid on debentures slightly increased by 4.2% over the prior year, reflecting large issues of financial debentures for the period. Thus, net interest income was KRW4,914 billion in 2002, up by 12.8% from KRW4,356 billion in 2001. Accordingly, net interest margin (NIM) improved by a 0.17% point to 3.39% in 2002, up from 3.22% in 2001.

Net Interest Income

	(In billions KRW)			
	2000	2001	2002	Change
Interest on loans ¹⁾	8,474	9,693	9,252	(4.5%)
Interest on securities	2,424	2,044	1,583	(22.6%)
Interest due from Banks & others	504	241	155	(35.8%)
Interest revenues	11,402	11,978	10,989	(8.3%)
Interest on deposits	5,918	6,067	4,771	(21.4%)
Interest on debentures	925	797	830	4.2%
Interest on borrowings & others	792	758	474	(37.4%)
Interest expenses	7,635	7,621	6,075	(20.3%)
Net interest income	3,767	4,356	4,914	12.8%
Net interest margin (NIM)	3.22%	3.22%	3.39%	0.17%p

¹⁾ includes interest on cash advance and card loan

Average Balances and Interest Rates

The following table sets forth the average balances of interest-earning assets and interest-bearing liabilities and the respective interest rates as of the dates indicated. In 2002, the average interest-earning assets increased by 5.0% to KRW137,779 billion, with the total loans increasing by 10.8% to KRW114,843 billion. Total loans as a percentage of total interest-earnings assets grew by 4.4% point from 78.9% in 2001 to 83.3% in 2002, indicating the Bank's focus on lending activities, as opposed to securities and dues from banks and others.

The total interest-bearing liabilities also increased by 5.9% to KRW141,849 billion, with the deposits increasing by 9.2% to KRW119,741 billion. Financial debentures increased by 18.7% to KRW12,159 billion, indicating the Bank's active use of financial debentures as another funding source for loans.

In 2002, the interest rate on interest-earning assets decreased by 1.15% point to 7.98%, and the interest rate on interest-bearing liabilities decreased by 1.41% point to 4.28%. The net spread of 3.70%, which is a 0.26% point increase over 2001, contributed to the expansion of the Bank's net interest margin.

	2001		2002	
	Avg. Balance	Interest rate	Avg. Balance	Interest rate
	(In billions KRW, %)			
Total loans	103,623	9.35	114,843	8.06
Loans in won	90,744	9.47	106,738	7.93
Household	53,291	10.03	66,778	8.24
Corporate	37,453	8.67	39,960	7.40
Credit card	2,642	19.53	3,577	16.37
Securities	25,444	8.03	21,490	7.37
Dues from Banks & others	2,186	11.02	1,446	10.69
Total interest-earning assets	131,252	9.13	137,779	7.98
Deposits	109,637	5.53	119,741	3.98
Financial debentures	10,245	7.78	12,159	6.83
Borrowings & others	14,036	5.40	9,949	4.76
Total interest-bearing liabilities	133,917	5.69	141,849	4.28

The following table sets forth the change in net interest income from 2001 to 2002, which resulted from a change in the average balance and/or interest rate on interest-earning assets and interest-bearing liabilities.

Volume & Rate Analysis

	Increased (decreased) due to			Total
	Volume	Rate	Volume/Rate	
	(In billions KRW)			
Total loans	1,051	(1,358)	(147)	(454)
Securities	(318)	(170)	27	(461)
Dues from Banks & others	(83)	(12)	4	(91)
Total interest revenues	650	(1,540)	(116)	(1,006)
Deposits	559	(1,699)	(157)	(1,297)
Financial debentures	149	(97)	(18)	34
Borrowings & others	(226)	(106)	31	(301)
Total interest expenses	482	(1,902)	(144)	(1,564)
Net interest income	168	362	28	558

Management's Discussion and Analysis

Non-Interest Income

Total non-interest income increased by 13.2% from KRW1,329 billion in 2001 to KRW1,505 billion in 2002. This increase was attributed mainly to a 26.9% (KRW106 billion) increase in commissions on credit cards and a 29.9% (KRW61 billion) increase in commissions in won.

In commissions in won, banks competed fiercely for mortgage loans and as an incentive, paid mortgage registration fees related to mortgage lending on behalf of their customers. However, this competitive practice became too costly and in November 2002, KB decided to halt the practice. The Bank's costs for fee payments totaled KRW147 billion in 2002. Had KB not paid the fees in 2002, the Bank would have had an additional KRW413 billion in commissions in won, a potential increase of 47%, instead of the recorded 29.9%.

Non-Interest Income Summary (net)

	2000	2001	2002	(In billions KRW) Change
Income on trust account	99	337	319	(5.4%)
Commissions on credit cards	254	392	498	26.9%
Fee from management of NHF	158	182	195	7.3%
Commissions in won	200	205	266	29.9%
(fees paid under waiver of mortgage registration fee)	0	76	147	93.5%
Commissions in foreign currencies	44	55	56	2.0%
Other non-interest income	104	159	172	8.2%
Gain on trading securities	92	239	255	6.7%
Dividend on securities	56	11	13	18.2%
Gain on trading of foreign currencies	256	181	(43)	n/a
Gain on derivatives	(124)	(49)	199	n/a
Contribution to Guarantee Fund ()	104	122	151	23.5%
Deposit insurance premium ()	71	100	112	11.7%
Miscellaneous	(1)	(1)	11	n/a
Total non-interest income	859	1,329	1,505	13.2%

Income on Trust Accounts

Net income on trust operations at the end of 2002 came to KRW319 billion, a 5.4% decrease from the previous year. Total revenues, however, decreased by 42.7% (KRW134 billion) over the prior year to KRW180 billion in 2002. Of this amount, fees and commissions decreased by 42.2% (KRW131 billion) to KRW180 billion in 2002. This decrease can be attributed to a sharp reduction in the balance of money trusts, which generate relatively high trust management fees.

While total revenues decreased by 42.7%, net income slightly decreased by 5.4% due to reversed provisions for losses and guarantee payment. Also an improvement in asset quality, recovery and debt-equity swap helped the Bank to recover some losses and reverse its allowance for the amount of KRW148 billion in 2002. In addition, the amount that the Bank was obligated to pay under the principal-guarantee agreement was minimal, and special provisions decreased to KRW10 billion in 2002.

Summary of Income on Trust Accounts

	(In billions KRW)			
	2000	2001	2002	Change
Total revenues	384	315	180	(42.7%)
Fees and commissions	359	311	180	(42.2%)
Early cancellation fees	25	4	0	(91.7%)
Guarantee payments ()	121	2	0	(100.0%)
Provision for losses ()	156	(39)	(148)	281.0%
Special provisions ()	8	15	10	(31.5%)
Total income on trust accounts	<u>99</u>	<u>337</u>	<u>319</u>	<u>(5.4%)</u>

Commissions on Credit Cards

The commissions on credit cards include agency commissions for Kookmin Credit Card and the credit card fees from in-captive BC credit card operations.

The following table shows the breakdown of operating income derived from our credit card operation on a non-consolidation basis.

	(In billions KRW)			
	2000	2001	2002	Change
Interest on cash advances and card loans ¹⁾ (from BC Card)	262	500	581	16.2%
Fees and commissions (from BC Card)	142	253	350	38.3%
Agency commissions for KCC	112	139	148	6.5%
Total operating income from credit card	<u>516</u>	<u>892</u>	<u>1,079</u>	<u>21.0%</u>

¹⁾ Recognized as interest income on loans

Provision For Loan Losses

The provision for loan losses is established by charging current earnings with an estimated amount that will be maintained as an allowance for potential loan losses, a level sufficient to provide for potential losses in the Bank's loan portfolio. Management considers several factors in determining the provision amount, including loss experience, changes in the composition of the portfolio, the financial condition of borrowers, general economic trends and conditions.

During 2002 the rates for determining the allowances for consumer and credit cards loans were increased in preparation for the rising risks from increasing levels of consumer and credit card loans.

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

As a result of the higher allowance rates, the Bank provided for an additional allowance of KRW275 billion for household loans and KRW87 billion for credit cards loans for the year ended December 31, 2002, resulting in a decrease of KRW362 billion in net income before income tax expenses. The provision for loan losses totaled KRW1,556 billion and KRW1,356 billion for 2002 and 2001, respectively.

Management's Discussion and Analysis

Provisioning by Sector

	2000	2001	2002	(In billions KRW) (additional provision)
Household	109	254	653	275
Credit card	38	210	774	87
Corporate	891	892	129	-
Total	1,038	1,356	1,556	362

Financial Conditions ----- Summary of 2002

Loan Portfolio

The Bank's total loans increased to a record KRW129,141 billion at December 31, 2002, up by 20.7% from KRW107,030 billion in 2001.

Of the total loans, loans in won rose by 23.0% (KRW21,774 billion) over the prior year to KRW116,473 billion in 2002, while loans in foreign currencies slightly increased by 5.8% (KRW243 billion) over the prior year to KRW4,417 billion in 2002.

In further breaking down loans in won by sector, household and SME loans in 2002 rose substantially over 2001. Household loans rose by 23.5% (KRW14 billion) to KRW74,310 billion, backed by the robust real estate market and consumers taking advantage of the low interest rate environment. Mortgage loans achieved a strong increase of 33.6% (KRW8,521 billion) to KRW33,871 billion, while home equity and consumer loans recorded a healthy 16.2% (KRW5,635 billion) growth to KRW40,439 billion.

Accordingly, household loans and SME loans as a percentage of total loans in KRW increased by 63.8% and 31.5%, respectively, in 2002. SME loans increased by 31.5% (KRW8,775 billion) to KRW36,660 billion due to the Bank's strategic focus on SMEs and their rising demand for loans. On the other hand, large corporate loans have consistently decreased over the last couple of years. In 2002, large corporate loans decreased by 19.3% (KRW1,128 billion) to KRW4,704 billion due to our intention to limit our large corporate exposure, and quality companies' easy access to the capital markets.

	2000		2001		2002	
		(portion)		(portion)		(portion)
Total loans	95,600		107,030		129,141	
Loans in won	83,865	100.0%	94,699	100.0%	116,473	100.0%
Household loans	48,873	58.3%	60,154	63.5%	74,310	63.8%
Mortgage	22,646	27.0%	25,350	26.8%	33,871	29.1%
Home equity & consumer	26,227	31.3%	34,804	36.8%	40,439	34.7%
Corporate loans	34,992	41.7%	34,545	36.5%	42,163	36.2%
SME	23,706	28.3%	27,885	29.4%	36,660	31.5%
Large	8,579	10.2%	5,832	6.2%	4,704	4.0%
Public and others	2,707	3.2%	828	0.9%	799	0.7%
Loans in foreign currencies	4,270		4,174		4,417	
Others	7,465		8,157		8,251	

Deposits

Total banking deposits at the end of 2002 was recorded at KRW126,257 billion, up by 6.8% from KRW118,201 billion the prior year. Deposits in won increased by 6.9% (KRW8,075 billion) to KRW125,173 billion, while deposits in foreign currencies decreased by 1.7% (KRW19 billion) to KRW1,084 billion. The increase in local currency deposits stemmed largely from core deposits, or low-cost funding sources, which rose by 9.7% (KRW3,632 billion) to KRW40,891 billion. Time & savings deposits inched up by 3.2% (KRW2,446 billion) to KRW78,091 billion. Marketable deposits increased by 47.6% (KRW1,998 billion) to KRW6,191 billion.

The relatively low deposit growth, compared to the strong loan growth is attributed to the general trend in the declining savings to disposable income ratio, the low interest rate environment in which customers sought higher-yielding financial instruments, and KB's low deposit rates due to our focus on profitability. In order to fund the strong loan demand, the Bank actively issued financial debentures, which can take advantage of the low interest rate environment and are free from deposit insurance premiums and reserve requirements. The financial debentures issuance balance was KRW17,022 billion in 2002, up by 118.8% from KRW7,778 billion in 2001.

	2000	2001	2002	(In billions KRW) Change
Total banking deposits	105,795	118,201	126,257	6.8%
Deposits in won	104,823	117,098	125,173	6.9%
Core deposits	27,042	37,259	40,891	9.7%
Time & savings deposits	72,824	75,645	78,091	3.2%
Marketable deposits ¹⁾	4,956	4,193	6,191	47.6%
Deposits in foreign currencies	972	1,103	1,084	(1.7%)
Financial debentures in won	7,947	7,778	17,022	118.8%

¹⁾ Marketable deposit: CD+Bonds sold under repurchase agreements+Bills sold.

Asset Quality

The Bank's asset quality continued to improve in 2002 over the prior year due to its strenuous effort in collection and write-offs.

The total credit outstanding at the end of 2002 amounted to KRW132,178 billion, up by 17.1% (KRW19,258 billion) from the previous year. The substandard & below credit balance decreased by 4.8% (KRW194 billion) to KRW3,821 billion in 2002, bringing substandard & below ratio down by 0.67% point to 2.89% at the year end. The loan loss reserve (LLR) to substandard & below credit slightly improved to 65.38% in 2002 from 63.96% in 2001. The precautionary & below credit ratio also declined to 7.51% in 2002 from 7.65% in 2001.

The improvement of asset quality can be attributed to KB's aggressive efforts in writing off bad assets. In 2002, write-offs amounted to KRW1,591 billion, including KRW671 billion in credit cards (in-captive division only) and KRW641 billion of corporate non-performing loans (NPLs).

The delinquency ratio slightly increased by 0.33% point to 2.84% in 2002 from 2.51% in 2001. This increase mainly reflects the rising credit card delinquencies caused by the government's tightened regulations and the Bank's measures to curb the sharply growing household debt since the second-half of 2002.

Management's Discussion and Analysis

Asset Quality

	(In billions KRW)			
	2000	2001	2002	Change
Total credit	103,524	112,920	132,178	17.1%
Normal	91,720	104,284	122,251	17.2%
Precautionary	5,502	4,621	6,106	32.1%
Substandard	4,168	2,484	2,632	5.9%
Doubtful	1,654	1,222	870	(28.8%)
Estimated loss	481	309	319	3.5%
Allowance for loan losses	3,368	2,568	2,498	(2.7%)
Precautionary & below credit	11,804	8,635	9,927	15.0%
Ratio	11.40%	7.65%	7.51%	(0.14%p)
Coverage	28.53%	29.74%	25.17%	(4.57%p)
Substandard and below credit	6,303	4,015	3,821	(4.8%)
Ratio	6.09%	3.56%	2.89%	(0.66%p)
Coverage	53.43%	63.96%	65.38%	(1.42%p)
Delinquency ratio	3.70%	2.51%	2.84%	0.33%p
NPL sold	871	1,333	0	-
Write offs	1,173	1,862	1,591	(14.6%)

Capital Adequacy

BIS capital adequacy ratio (CAR) at the end of 2002 stood at 10.41%, up by 0.18% point from the previous year. Tier I and Tier II ratios posted at 6.62% and 3.83%, respectively.

In reviewing the BIS ratio in detail, Tier I capital increased by 12.7% to KRW9,178 billion, due to the accretion of retained earnings and conversion of convertible bonds held by Goldman Sachs. Tier II capital also increased by 45.6%, due mainly from the KRW1.1 trillion net issuance of won-denominated subordinated debt. The risk-weighted assets increased by 20.8% to KRW138,703 billion, backed by a strong loan growth.

BIS Capital Adequacy Ratio

	(In billions KRW)			
	2000	2001	2002	Change
Total capital	10,078	11,751	14,439	22.9%
Tier I	5,931	8,141	9,178	12.7%
Tier II	4,198	3,653	5,319	45.6%
Investment in non-consolidated investees ()	(50)	(43)	(58)	34.9%
Risk weighted assets	94,450	114,849	138,703	20.8%
On balance	88,299	108,695	132,946	22.3%
At market risk	-	-	828	-
Off balance	6,151	6,154	4,929	(19.9%)
BIS CAR	10.67%	10.23%	10.41%	0.18%p
Tier I	6.28%	7.09%	6.62%	(0.47%p)
Tier II	4.44%	3.18%	3.83%	0.65%p

Report of Independent Accountants (Non-Consolidated Banking Accounts)

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS 

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

To the Board of Directors and Shareholders of
Kookmin Bank

We have audited the accompanying non-consolidated balance sheets of Kookmin Bank ("the Bank") as of December 31, 2002 and 2001, and the related non-consolidated statements of income, appropriations of retained earnings, and cash flows for the years then ended, expressed in Korean Won. 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 Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Bank as of December 31, 2002 and 2001, and the results of its operations, the changes in its retained earnings, and its cash flows for the years then ended, in accordance with financial accounting standards generally accepted in the Republic of Korea.

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

As discussed in Note 33 to the non-consolidated financial statements, the Bank completed the legal consolidation with H&CB as of October 31, 2001. Despite the legal form of consolidation, the business combination was accounted for as an acquisition with the Bank as acquirer of H&CB's total assets of ₩67,742,958 million and liabilities of ₩64,381,185 million. The Bank's registration statement with the Securities and Exchange Commission of the United States of America was declared effective on September 10, 2001, and the new shares of the Bank are listed on New York Stock Exchange as American Depositary Shares ("ADS") since November 1, 2001.

As discussed in Note 2 to the non-consolidated financial statements, during the current period, the rates for determining allowances for consumer loans and credit cards loans were changed, in preparation for the increasing risk of loan losses due to the increase of consumer loans and credit cards, as follows.

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

Report of Independent Accountants (Non-Consolidated Banking Accounts)

As a result of the changed allowance rates, the Bank provided additional allowances of ₩274,673 million for consumer loans and ₩87,035 million for credit cards loans for the year ended December 31, 2002, resulting in a decrease of ₩361,708 million decrease in net income before income tax expenses for the year ended December 31, 2002.

As discussed in Note 18 to the non-consolidated financial statements, the Bank sold 65.43% of its 85.43% investment in Jooeun Leasing Co., Ltd. and ₩172,024 million of loans to Sun Capital Inc. for ₩145,000 million on August 30, 2002. The Bank also sold an additional 5.03% of its investment in Jooeun Leasing Co., Ltd. to Sun Capital Inc. for ₩900 million on October 28, 2002.

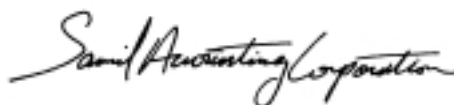
As discussed in Note 18 to the non-consolidated financial statements, the Bank sold its 87.00% ownership of Kookmin Investment Trust Management Co., Ltd. and 88.66% ownership of Kookmin Leasing Co., Ltd. to Morgan Stanley Private Equity, the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds, and Sun Capital Inc. on May 29, 2002 and December 27, 2002, respectively.

As discussed in Note 5 to the non-consolidated financial statements, Kookmin Venture Capital Co., Ltd., Frontier Investment Co., Ltd., and Kookmin Investment Co., Ltd. were subsidiaries of the Bank. Kookmin Venture Capital Co., Ltd. merged with Frontier Investment Co., Ltd. and Kookmin Investment Co., Ltd. on December 31, 2001 and June 27, 2002, respectively, to avoid duplicate investments.

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

Samil Accounting Corporation

Seoul, Korea
February 7, 2003



Non-Consolidated Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
Assets:		
Cash and due from banks (Note 3)	₩ 4,599,356	₩ 7,503,624
Trading securities (Note 4)	5,676,973	6,414,148
Investment securities (Note 5)	25,263,777	27,003,206
Loans (Notes 6 and 7)	126,730,561	107,029,959
Fixed assets (Note 8)	3,092,616	2,924,471
Other assets (Note 9)	6,135,558	6,018,394
Total Assets	₩ 171,498,841	₩ 156,893,802
Liabilities and Shareholders' Equity:		
Deposits (Note 10)	₩ 123,109,653	₩ 115,161,304
Borrowings (Note 11)	10,690,754	12,556,052
Debentures (Note 12)	17,539,007	9,076,028
Other liabilities (Note 15)	10,110,031	11,186,876
Total Liabilities	₩ 161,449,445	₩ 147,980,260
Commitments and Contingencies (Notes 16 and 18)		
Common stock, par value: ₩5,000, authorized: 1,000 million shares, issued and outstanding: 328,258,685 shares (Notes 1 and 19)	1,641,293	1,498,487
Capital surplus (Note 20)	5,864,752	5,683,964
Retained earnings (Note 21)	2,417,102	1,427,475
Capital adjustments (Note 22)	126,249	303,616
Total Shareholders' Equity	10,049,396	8,913,542
Total Liabilities and Shareholders' Equity	₩ 171,498,841	₩ 156,893,802

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

Non-Consolidated Income Statements

For the years ended December 31, 2002 and 2001

In Millions of Korean Won

	2002	2001
Interest income:		
Interest on due from banks	₩ 51,580	₩ 78,983
Interest on trading securities	95,576	172,045
Interest on investment securities	1,487,318	1,429,652
Interest on loans	9,251,849	5,603,114
Other interest income	102,735	123,354
	<u>10,989,058</u>	<u>7,407,148</u>
Interest expenses:		
Interest on deposits	4,770,967	3,613,398
Interest on borrowings	415,938	513,876
Interest on debentures	830,219	531,244
Other interest expenses	58,068	62,354
	<u>6,075,192</u>	<u>4,720,872</u>
Net interest income	4,913,866	2,686,276
Provision for loan losses (Note 7)	1,593,479	992,249
Net interest income after provision for loan losses	<u>3,320,387</u>	<u>1,694,027</u>
Non-interest income:		
Fees & commission income	1,345,669	530,343
Dividends on trading securities	1,123	323
Dividends on investment securities	12,186	6,679
Gain on foreign currency transactions	202,367	359,423
Gain on derivatives (Note 17)	2,364,376	2,292,219
Others (Note 23)	669,722	397,770
	<u>4,595,443</u>	<u>3,586,757</u>
Non-interest expenses:		
Fees & commission expenses	330,385	138,835
General and administrative expenses (Note 24)	2,551,426	1,458,544
Loss on foreign currency transactions	245,232	211,401
Loss on derivatives (Note 17)	2,164,987	2,319,432
Others (Note 23)	358,035	307,026
	<u>5,650,065</u>	<u>4,435,238</u>
Operating income	2,265,765	845,546
Non-operating income (expenses), net (Note 25)	(372,147)	246,705
Net income before income tax expenses	<u>1,893,618</u>	<u>1,092,251</u>
Income tax expenses (Note 26)	583,327	351,686
Net income	<u>₩ 1,310,291</u>	<u>₩ 740,565</u>
Basic earnings per share (In Korean Won) (Note 27)	<u>₩ 4,123</u>	<u>₩ 3,706</u>
Diluted earnings per share (In Korean Won) (Note 27)	<u>₩ 4,123</u>	<u>₩ 3,545</u>

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

Non-Consolidated Statements of Appropriations of Retained Earnings

For the years ended December 31, 2002 and 2001

Dates of appropriations: March 21, 2003 for 2002 and March 22, 2002 for 2001

	In Millions of Korean Won	
	2002	2001
Retained earnings before appropriations:		
Unappropriated retained earnings carried over from prior year	₩ 5,117	₩ 37
Adjustment of investment in associates (Note 21)	4,562	(68,184)
Net income	1,310,291	740,565
	<u>1,319,970</u>	<u>672,418</u>
Transferred from prior years' reserves (Note 21):		
Reserves for overseas investment losses	5,417	8,483
	<u>1,325,387</u>	<u>680,901</u>
Appropriations (Note 21):		
Legal reserves	132,000	74,100
Reserves for business rationalization	-	1,000
Cash dividends		
(20.0% for common stock in 2002, 2.0% for common stock in 2001)	325,233	29,967
Stock dividends (6.0% for common stock in 2001)	-	89,900
Voluntary reserves	867,000	480,000
Other reserves	744	817
	<u>1,324,977</u>	<u>675,784</u>
Unappropriated retained earnings carried over to the subsequent year	<u>₩ 410</u>	<u>₩ 5,117</u>

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

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

In Millions of Korean Won

	2002	2001
Cash Flows from Operating Activities:		
Net income	₩ 1,310,291	₩ 740,565
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gain on trading securities, net	(87,802)	(34,724)
Unrealized loss (gain) on trading securities, net	(167,366)	4,140
Loss (gain) on foreign currency transactions, net	42,865	(148,022)
Provision for loan losses	1,593,479	992,249
Loss (gain) on derivative instruments, net	(199,389)	27,213
Retirement benefits	100,198	112,366
Depreciation and amortization	389,931	116,871
Loss on disposition of fixed assets, net	6,288	3,374
Realized gain on investment securities, net	(210,845)	(72,931)
Impairment loss on investment securities, net	272,393	95,117
Unrealized gain on investment securities, net	(2,022)	(85,519)
Loss (gain) on investment in associates	273,620	(351,226)
Loss (gain) on sale of loans, net	(6,475)	118,021
Others, net	(57,197)	(131,969)
Changes in assets and liabilities resulting from operations		
Accrued income	3,238	436,959
Prepaid expenses	14,037	2,963
Deferred tax assets	(51,181)	97,110
Other assets	5,639	181,463
Accrued expenses	(90,475)	(513,456)
Unearned income	(1,070)	(17,216)
Withholding taxes	(54,343)	(51,415)
Accounts for agency business	141,532	218,857
Other liabilities	45,215	(232,975)
Decrease in retirement benefits	(19,130)	(629,069)
Increase in pension funds	(60,268)	(23,400)
Decrease in the national pension fund	33	24,927
Net cash provided by operating activities	₩ 3,191,196	₩ 880,273

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

Continued:

Non-Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
Cash Flows from Investing Activities:		
Decrease (increase) in due from banks	₩ 2,839,245	₩ (2,730,337)
Decrease in trading securities	992,343	287,364
Decrease (increase) in investment securities	1,606,941	(1,456,493)
Increase in loans, net	(20,439,846)	(7,295,710)
Proceeds from disposition of fixed assets	15,027	10,584
Acquisition of fixed assets	(579,330)	(180,137)
Others, net	360,592	(939,278)
Net cash used in investing activities	<u>(15,205,028)</u>	<u>(12,304,007)</u>
Cash Flows from Financing Activities:		
Increase in deposits, net	7,948,349	7,672,166
Increase in borrowings	17,520,024	6,476,497
Increase in debentures	14,658,294	1,552,519
Decrease in borrowings	(20,366,653)	(4,448,335)
Decrease in debentures	(5,961,214)	(4,209,339)
Others, net	<u>(1,857,703)</u>	<u>735,180</u>
Net cash provided by financing activities	<u>11,941,097</u>	<u>7,778,688</u>
Net decrease in cash and cash equivalents	<u>(72,735)</u>	<u>(3,645,046)</u>
Cash and cash equivalents, beginning of the year (Note 34)	<u>3,173,316</u>	<u>6,818,362</u>
Cash and cash equivalents, end of the year (Note 34)	<u>₩ 3,100,581</u>	<u>₩ 3,173,316</u>

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

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

1. The Bank

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

The Bank merged with Korea Long Term Credit Bank ("KLB") on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, under the decision of the Financial Supervisory Commission in accordance with the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. The Bank completed the legal consolidation with H&CB as of October 31, 2001 (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 shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. The Bank's paid-in capital amounts to ₩1,641,293 million as of December 31, 2002 (See Note 19). Also, as of December 31, 2002, 37,728,214 shares of the Bank are listed on the New York Stock Exchange as American Depositary Shares ("ADS").

The Bank is engaged in the banking and trust business according to the provisions of the General Banking Act and the Trust Business Act and operates through 1,336 domestic branches and offices (including ATMs) and 3 overseas branches as of December 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 non-consolidated 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 non-consolidated financial statements. Certain information attached to the Korean language financial statements, that are not required for a fair presentation of the Bank's financial position, results of operations or cash flows are 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.

Continued:

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.

Translation of Foreign Currency -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at exchange rates announced by Seoul Money Brokerage Services, Ltd. 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 December 31, 2002 and 2001 are ₩1,200.4 : US\$1 and ₩1,326.1 : US\$1, respectively.

Loans -

Until November 30, 2002, the Bank regarded granting lines of credit under import usance letters of credit, as guarantees and acceptances outstanding (acceptances on letters of credit), and provided allowances only for the transactions classified as "sub-standard" or below according to the credit risk classifications. However, under the revised Enforcement Regulations on Supervision of Banking Business, effective on December 1, 2002, those transactions are regarded as loans in foreign currencies (domestic usance bills) and borrowings in foreign currencies and the Bank provided allowances for loan losses under the same criteria for regular loans. As a result, as of December 31, 2002, loans in foreign currencies and borrowings in foreign currencies have been increased by ₩981,379 million, respectively and allowances for guarantees and acceptances outstanding have been decreased by ₩11,568 million and allowances for loan losses have been increased by ₩18,866 million.

Allowances for Loan Losses -

The Bank applies its internal credit rating system, the Forward Looking Criteria ("FLC"), to corporate loans in order to classify the borrowers and to determine allowances for loan losses. Effective as of January 1, 2002, the classification of corporate borrowers changed from 10 credit risk categories (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) to 12 credit risk categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D). Credit risk classification under the FLC is based on a scaled valuation of financial and non-financial risks with additional consideration of the loan type, collateral and/or guarantees.

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

Credit Risk Classification	Credit Ratings before Changes	Credit Ratings after Changes	Allowance Rates
Normal	AAA ~ B	AAA ~ B	0.5%
Precautionary	CCC	B-, CCC	2%
Sub-standard	CC	CC	20%
Doubtful	C	C	50%
Estimated loss	D	D	100%

However, the Bank does not apply the FLC to small-sized corporate loans, consumer loans, and credit cards. Alternatively, the bank classifies such loans by considering the current financial status including delinquent number of days, bankruptcies and collateral value. During the current period, the rates for determining the allowances for small-sized corporate loans, consumer loans, and credit cards were changed as follows:

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

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

As a result of the changed allowance rates, the Bank provided additional allowances of ₩274,673 million for consumer loans and ₩87,035 million for credit cards loans for the year ended December 31, 2002, resulting in a decrease of ₩361,708 million decrease in net income before income tax expenses for the year ended December 31, 2002.

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 as 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 provision for loan losses 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.

The Bank recorded ₩21,156 million and ₩28,868 million of present value discounts as of December 31, 2002 and 2001, respectively, on long-term deposits placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.), a subsidiary of the Bank sold in December 1999 (See Note 3). The receivables from the 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 associates 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 recorded at cost, including incidental expenses, with cost being determined using the moving average or specific identification method. The subsequent valuation methods used for the securities are summarized as follows:

	Valuation Method	Recognition of Unrealized Gains and Losses
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 associates	Equity	Net income, retained earnings, or capital adjustments per source of the gain or loss

Continued:

If the fair value of the investment securities are significantly below the book value and the decrease in value is anticipated to be permanent, the Bank adjusts the investment securities to their fair value and recognizes impairment losses in non-operating expenses of the current period.

Fixed Assets and Related Depreciation -

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

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

Tangible assets	Amortization Method	Estimated Useful Life
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4 years
Equipment and vehicles	Declining balance method	4 years

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

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

The Bank recorded goodwill as a result of the merger with H&CB for the cost of the merger exceeding the fair value of the net assets acquired.

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 amortization.

Intangible Asset	Amortization Method	Estimated Useful Life
Goodwill	Straight-line method	9 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	7-30 years

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 the balance sheet date are entitled to receive a lump-sum payment upon termination of their employment with the Bank, based on their length of service and rate of pay at the time of termination. Additionally, the Bank records the contributions to pension funds, which grant the payment rights to its employees, and contributions to the national pension fund as contra accounts of accrued retirement benefits.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Guarantees and Acceptances -

By applying the credit risk classification used for loans to the guarantees and acceptances, the Bank records an 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 tax effects of temporary differences arising from the cumulative effects of accounting changes are adjusted in retained earnings.

Bonds under Repurchase/Resale Agreements -

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements.

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.

The Bank applies hedge accounting only to the derivative instruments whose hedging relationship is expected to be highly effective in offsetting changes in fair value attributable to the hedged risk during the period that the hedge is designated. At inception of the hedge, the bank has formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge, including identification of the hedging instrument, the hedged item, the nature of the risk being hedged, and how the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk will be assessed.

Stock Options -

The Bank had applied the fair value method using an option-pricing model in measuring compensation cost until the prior period. However, starting from the current period, expecting a high probability of grant and exercise as stock appreciation rights, the Bank changed the measurement method to the intrinsic value method. As a result, previous amounts recorded in capital adjustments (stock options) have been reclassified into accrued expenses (See Note 14).

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.

Gains and Losses on Trust Management -

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

Continued:

Under the Trust Business Act, reserves for future losses are set up in the trust accounts for losses related to those trust funds with a guarantee of the principal or of a certain minimum rate of return. The reserves are used to provide for the losses on such trust funds and, if the losses 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. There were no compensation paid for the year ended December 31, 2002 and the Bank recorded loss on trust management amounting to ₩31,479 million for the year ended December 31, 2001.

Translation of the 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 purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of balance sheet dates.

Statement of Cash Flows -

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

Application of the Statements of Korean Financial Accounting Standards -

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 become effective for the Bank as of January 1, 2003, and the Bank plans to adopt these SKFASs from January 1, 2003.

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2002 and 2001 are summarized as follows:

		In Millions of Won	
		2002	2001
Cash on hand			
Cash in Won		₩ 2,392,346	₩ 2,553,258
Cash in foreign currencies		186,780	147,313
		<u>2,579,126</u>	<u>2,700,571</u>
Due from banks in Won			
The Bank of Korea	Reserve deposits	₩ 1,340,482	₩ 3,450,528
Banks	Time deposits	41,192	1,192
	Reserve deposits	392	174
	Certificates of deposits	-	198,822
	Current accounts and others	-	1,313
Other financial institutions	Cash management accounts	-	110,379
	Deposits at insurance companies	-	688,500
	Deposits at Mutual Savings & Finance Co., Ltd.	140,000	140,000
Others	Futures margin accounts	1,336	51,238
	Market participation margin	458	453
	Others	8,319	13,629
		<u>1,532,179</u>	<u>4,656,228</u>
	Present value discounts ¹⁾	(21,156)	(28,868)
		<u>1,511,023</u>	<u>4,627,360</u>
Due from banks in foreign currencies			
The Bank of Korea	Demand deposits	25,677	33,795
Domestic banks	Demand deposits	11,341	12,447
Foreign banks	Time deposits	15,193	2,652
	Demand deposits	92,732	103,365
Off-shore	Demand deposits	359,200	-
Others	Other deposits	5,064	23,434
		<u>509,207</u>	<u>175,693</u>
		<u>₩ 4,599,356</u>	<u>₩ 7,503,624</u>

¹⁾ Present value discounts are recorded in relation to the ₩140,000 million of time deposits (1% interest, five year maturity at the point of deposit, uncalled for five years) placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.).

Included in cash and due from banks as of December 31, 2002 and 2001 are the following restricted deposits:

		In Millions of Won		
		2002	2001	Restrictions
Reserve deposits in the Bank of Korea and Korea Exchange Bank	₩ 1,377,891	₩ 3,488,985		General Banking Act
Deposits placed with Hansol Mutual Savings & Finance Co., Ltd.	140,000	140,000		Withdrawal at maturity
Deposits at insurance companies	-	678,500		Related to borrowings
Other deposits	2,040	51,691		Futures guarantee deposit
	<u>₩ 1,519,931</u>	<u>₩ 4,359,176</u>		

Continued:

The maturities of the due from banks as of December 31, 2002 are summarized as follows:

	In Millions of Won		
	Due from Banks in Won	Due from Banks in Foreign Currencies	Total
Due in 3 months or less	₩ 1,390,987	₩ 461,191	₩ 1,852,178
Due after 3 months through 6 months	-	48,016	48,016
Due after 6 months through 1 year	-	-	-
Due after 1 year through 2 years	50,000	-	50,000
Due after 2 years through 3 years	90,000	-	90,000
Due after 3 years through 4 years	-	-	-
Due after 4 years through 5 years	-	-	-
Thereafter	1,192	-	1,192
	<u>₩ 1,532,179</u>	<u>₩ 509,207</u>	<u>₩ 2,041,386</u>

4. Trading Securities

Trading securities as of December 31, 2002 and 2001 comprise the following:

	Par Value	Beginning Balance ¹⁾	Amortized Amount ²⁾	In Millions of Won	
				Balance Sheet Amount	
				2002	2001
Trading securities in Won					
Listed equity securities	₩ -	₩ 59,130	₩ 59,130	₩ 55,674	₩ 45,682
Government and municipal bonds					
Treasury bonds	555,000	566,026	565,100	569,261	560,115
Public housing bonds	-	-	-	-	19,447
Foreign exchange stabilization bonds	70,000	75,196	73,735	75,174	218,443
		<u>641,222</u>	<u>638,835</u>	<u>644,435</u>	<u>798,005</u>
Finance debentures					
Monetary stabilization bond	740,000	740,225	739,813	743,242	700,168
Other finance debentures	40,000	40,650	40,459	40,926	146,555
		<u>780,875</u>	<u>780,272</u>	<u>784,168</u>	<u>846,723</u>
Corporate bonds					
Government guaranteed bonds	190,000	195,818	195,166	195,740	423,207
Other corporate bonds	139,633	140,241	140,107	140,734	160,578
		<u>336,059</u>	<u>335,273</u>	<u>336,474</u>	<u>583,785</u>
Beneficiary certificates	-	3,683,730	3,683,730	3,844,380	4,081,859
Trading securities in foreign currencies	12,526	12,364	12,366	11,842	58,094
		<u>₩ 5,513,380</u>	<u>₩ 5,509,606</u>	<u>₩ 5,676,973</u>	<u>₩ 6,414,148</u>

¹⁾ Book value at December 31, 2001 or acquisition costs for the year ended December 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. Trading debt securities in foreign currencies are recorded at fair value using the market yield of bonds provided by bond dealers.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Trading securities risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won			
	Securities in Won		Securities in Foreign Currencies	
	Amount	Ratio (%)	Amount	Ratio (%)
By Country				
Korea	₩ 5,665,131	100.00	₩ 11,842	100.00
	<u>₩ 5,665,131</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>
By Type				
Fixed rate bond	₩ 1,600,744	28.26	₩ -	-
Floating rate bond	164,333	2.90	11,842	100.00
Equity securities	55,674	0.98	-	-
Beneficiary certificates	3,844,380	67.86	-	-
	<u>₩ 5,665,131</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>
By Industry				
Government and municipalities	₩ 644,435	11.38	₩ -	-
Government agencies	195,740	3.46	-	-
Financial institutions	4,660,355	82.26	-	-
Others	164,601	2.90	11,842	100.00
	<u>₩ 5,665,131</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>

The maturities of the trading securities except equity securities as of December 31, 2002 are summarized as follows:

	In Millions of Won					
	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Trading Securities in Foreign Currencies	Total
Due in 3 months or less	₩ -	₩ -	₩ -	₩3,844,380	₩ -	₩3,844,380
Due after 3 months through 6 months	-	10,059	-	-	-	10,059
Due after 6 months through 9 months	-	9,523	-	-	-	9,523
Due after 9 months through 1 year	-	28,540	-	-	-	28,540
Due after 1 year through 2 years	46,797	705,371	140,688	-	-	892,856
Due after 2 years through 3 years	472,490	30,675	52,065	-	11,842	567,072
Due after 3 years through 4 years	83,179	-	112,976	-	-	196,155
Due after 4 years through 5 years	41,969	-	-	-	-	41,969
Thereafter	-	-	30,745	-	-	30,745
	<u>₩ 644,435</u>	<u>₩ 784,168</u>	<u>₩ 336,474</u>	<u>₩3,844,380</u>	<u>₩ 11,842</u>	<u>₩5,621,299</u>

As of December 31, 2002, the beneficiary certificates in trading securities include discretionary investing contract assets. Securities included in discretionary investing contract assets consist of Samsung Electronics Co., Ltd. stock and other 27 listed or registered stocks. Acquisition costs and fair values of these assets amount to ₩8,358 million and ₩7,260 million, respectively. The Bank recorded the difference between acquisition costs and fair values of ₩1,098 million as unrealized loss on trading securities.

Continued:

5. Investment Securities

Investment securities as of December 31, 2002 and 2001 are as follows:

	2002	In Millions of Won 2001
Equity securities		
Marketable equity securities	₩ 262,105	₩ 342,550
Non-marketable equity securities	357,381	379,534
Domestic related parties	986,522	1,386,683
	<u>1,606,008</u>	<u>2,108,767</u>
Investment in special funds		
Stock market stabilization fund	12,947	23,178
Investment union fund	23,205	21,509
	<u>36,152</u>	<u>44,687</u>
Government and municipal bonds		
Treasury bonds	2,827,305	2,413,770
Public housing bonds	311,228	374,097
Grain supply bonds	3,620	96,883
Foreign exchange stabilization bonds	1,430,494	745,010
Municipal bonds	35,239	164,486
	<u>4,607,886</u>	<u>3,794,246</u>
Finance debentures		
Monetary stabilization bond	2,526,027	2,439,757
Other finance debentures	647,886	877,199
	<u>3,173,913</u>	<u>3,316,956</u>
Corporate bonds		
Government guaranteed bonds	8,292,977	7,866,196
Other corporate bonds	3,060,454	5,217,568
	<u>11,353,431</u>	<u>13,083,764</u>
Beneficiary certificates	<u>3,231,853</u>	<u>3,218,834</u>
Securities lent	<u>47,835</u>	<u>198,934</u>
Other investment securities¹⁾	<u>1,914</u>	<u>2,840</u>
Securities denominated in foreign currencies		
Overseas related parties	116,640	120,921
Equity securities	26,628	27,620
Debt securities	1,061,517	1,085,637
	<u>1,204,785</u>	<u>1,234,178</u>
	<u>₩ 25,263,777</u>	<u>₩ 27,003,206</u>

¹⁾ Other investment securities include commercial papers and national stock trusts.

Continued;

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

At December 31, 2002, the amortized amount and balance sheet amount of the Bank's investment debt securities are as follows:

	Par Value	Beginning Balance ¹⁾	Amortized Amount	In Millions of Won	
				Balance Sheet Amount	Balance Sheet Amount
Available-for-sale					
Government and municipal bonds	₩ 2,174,329	₩ 2,215,693	₩ 2,185,951	₩ 2,226,514	
Finance debentures	2,308,398	2,257,078	2,249,679	2,267,156	
Corporate bonds	3,834,894	3,753,493	3,639,398	3,695,983	
Securities denominated in foreign currencies	1,163,254	1,023,752	998,674	1,022,014	
	<u>9,480,875</u>	<u>9,250,016</u>	<u>9,073,702</u>	<u>9,211,667</u>	
Held-to-maturity					
Government and municipal bonds	2,371,065	2,384,910	2,381,372	2,381,372	
Finance debentures	933,700	906,662	906,757	906,757	
Corporate bonds	7,607,584	7,745,386	7,657,448	7,657,448	
Securities denominated in foreign currencies	40,200	39,244	39,503	39,503	
	<u>10,952,549</u>	<u>11,076,202</u>	<u>10,985,080</u>	<u>10,985,080</u>	
	<u>₩ 20,433,424</u>	<u>₩ 20,326,218</u>	<u>₩ 20,058,782</u>	<u>₩ 20,196,747</u>	

¹⁾ Book value at December 31, 2001 or acquisition costs for the year ended December 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. Available-for-sale debt securities in foreign currencies are recorded at fair value using the market yield of bonds provided by bond dealers.

Government and municipal bonds sold under repurchase agreements of ₩3,074,161 million and ₩2,959,897 million as of December 31, 2002 and 2001, respectively, are included in the investment securities (See Note 11).

Equity securities in related parties as of December 31, 2002 and 2001 are as follows:

Issuer	Ownership (%)	Acquisition Cost	Beginning Balance ¹⁾	Unrealized Gains (Losses) ²⁾			Balance Sheet Amount ³⁾	
				NI	R/E	C/A	2002	2001
Domestic related parties								
Kookmin Credit Card Co., Ltd.	74.27	₩ 272,274	₩ 873,991	₩(193,759)	₩ 585	₩ 1,143	₩ 681,960	₩ 941,948
Kookmin Venture Capital Co., Ltd. ¹⁾	99.89	137,378	179,694	(119,050)	10,155	(3,510)	67,289	70,406
Kookmin Investment Trust Mgt. Co., Ltd. ²⁾	-	-	-	-	-	-	-	33,618
Kookmin Data System Co., Ltd.	99.98	7,998	12,408	2,008	-	-	14,416	12,929
Kookmin Futures Co., Ltd.	99.98	19,996	22,515	2,580	(49)	46	25,092	23,814
KLB Securities Co., Ltd. ³⁾	36.41	10,316	-	-	-	-	-	-
Alpha Capital Corp. ⁴⁾	14.97	3,919	-	-	-	-	-	51,291
KB Investment Trust Mgt. Co., Ltd. ⁵⁾	80.00	39,015	32,685	13,148	-	35	45,868	41,886
Joeeun Industrial Co., Ltd. ⁶⁾	99.99	23,994	8,465	(8,465)	-	-	-	8,465
KB Real Estate Trust Co., Ltd. ⁷⁾	99.99	76,103	78,537	8,854	-	336	87,727	78,537
KB Credit Information Co., Ltd. ⁸⁾	62.57	7,936	8,083	1,660	-	(752)	8,991	5,247
Kookmin Leasing Co., Ltd. ⁹⁾	-	-	-	-	-	-	-	-

Continued:

Issuer	Ownership (%)	Acquisition Cost	Beginning Balance ¹¹⁾	Unrealized Gains (Losses) ¹²⁾			Balance Sheet Amount ¹³⁾	
				NI	R/E	C/A	2002	2001
Domestic related parties, Continued								
ING Life Korea Co., Ltd. ¹⁰⁾	20.00	₩ 21,769	₩ 24,892	₩ (3,279)	₩ -	₩ -	₩ 21,613	₩ 24,891
Korea Mortgage Co., Ltd.	26.67	30,629	32,487	1,079	-	-	33,566	32,487
Kookmin Investment Co., Ltd. ¹⁾	-	44,275	48,425	-	-	-	-	48,425
Frontier Investment Corp. ¹⁾	-	17,934	12,109	-	-	-	-	12,109
		<u>713,536</u>	<u>1,334,291</u>	<u>(295,224)</u>	<u>10,691</u>	<u>(2,702)</u>	<u>986,522</u>	<u>1,386,683</u>
Overseas related parties								
KB International Ltd. (London)	100.00	38,500	46,997	742	-	-	47,739	46,950
KB Luxembourg S.A. ¹⁰⁾	100.00	22,004	-	9,308	(4,202)	-	5,106	-
Kookmin Singapore Ltd. ³⁾	100.00	12,123	2,084	-	-	-	2,084	2,303
Kookmin Finance Asia Ltd. (H.K)	100.00	8,403	1,023	(744)	-	-	279	17,205
Kookmin Finance H.K. Ltd.	100.00	24,008	49,300	12,132	-	-	61,432	54,463
		<u>105,038</u>	<u>99,404</u>	<u>21,438</u>	<u>(4,202)</u>	<u>-</u>	<u>116,640</u>	<u>120,921</u>
Investment in special funds								
KICO NO.3. Venture Investment Partnership	69.23	9,000	9,000	53	-	531	9,584	9,000
Pacific IT Investment Partnership	50.00	7,000	7,000	-	-	-	7,000	7,000
NPC02-4 Kookmin Venture Fund	33.33	5,000	5,000	113	-	-	5,113	5,000
		<u>21,000</u>	<u>21,000</u>	<u>166</u>	<u>-</u>	<u>531</u>	<u>21,697</u>	<u>21,000</u>
		<u>₩ 839,574</u>	<u>₩ 1,454,695</u>	<u>₩ (273,620)</u>	<u>₩ 6,489</u>	<u>₩ (2,171)</u>	<u>₩ 1,214,859</u>	<u>₩ 1,528,604</u>

¹⁾ Kookmin Venture Capital Co., Ltd. merged with Frontier Investment Corp. and Kookmin Investment Co., Ltd., on December 31, 2001 and June 27, 2002, respectively.

²⁾ The Bank completed the sale of Kookmin Investment Trust Management Co., Ltd., on May 29, 2002 (See Note 18).

³⁾ KLB Securities Co., Ltd. and Kookmin Singapore (Merchant Bank), Ltd. are in the process of liquidation.

⁴⁾ The Bank sold part of its investment in Jooeun Leasing Co., Ltd. (See Note 18), resulting in the decrease of its ownership to 14.97% and reclassifications from investment in associates into unlisted stocks. The company changed its name from Jooeun Leasing Co., Ltd. to Alpha Capital Corp. in the general meeting of stockholders, held on October 30, 2002.

⁵⁾ The company changed its name from Jooeun Investment Management Co., Ltd. to KB Investment Trust Management Co., Ltd., effective as of June 10, 2002.

⁶⁾ Dissolution of Jooeun Industrial Co., Ltd. was resolved in the general meeting of its stockholders on March 19, 2002.

⁷⁾ Jooeun Real Estate Trust Co., Ltd. changed its name to KB Real Estate Trust Co., Ltd., effective as of September 16, 2002.

⁸⁾ Jooeun Credit Information Co., Ltd. merged with KM Credit Information Co., Ltd., effective as of May 2, 2002 and changed its name to KB Credit Information Co., Ltd.

⁹⁾ The Bank sold Kookmin Leasing Co., Ltd. to Sun Capital Inc. on December 27, 2002 (See Note 18).

¹⁰⁾ The Bank applied the equity method based on the amended financial statements of ING Life Korea Co., Ltd. for ₩16,117 million of income taxes, and of Kookmin Bank Luxembourg S.A. for ₩22,225 million of impairment losses on investment securities and allowances for loan losses.

¹¹⁾ The beginning balance is adjusted by dividends and changes in foreign exchange rate from the prior year's book value.

¹²⁾ NI: Net Income, R/E: Retained Earnings, C/A: Capital Adjustments

¹³⁾ The balance sheet amount is recorded using the monthly closing information of related parties as of December 31, 2002 if possible, otherwise the most recent financial information is used.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Equity securities, excluding equity securities in related parties, as of December 31, 2002 are as follows:

Issuer	Ownership (%)	Acquisition Cost	Fair Value or Net Asset Value ¹⁾		Balance Sheet Amount	
			₩	₩	₩	₩
Marketable equity securities (KSE)						
Hyundai Construction Co., Ltd.	6.14	₩ 140,125	₩	48,197	₩	48,197
KP Chemical Co., Ltd.	7.89	36,650		22,818		22,818
Kia Motors Corp.	0.65	26,281		21,267		21,267
SK Securities Co., Ltd.	5.58	26,878		21,259		21,259
Hankang Restructuring Fund	6.25	21,444		16,632		16,632
INI Steel Co., Ltd.	2.14	9,564		14,469		14,469
Daewoo Securities Co., Ltd.	1.60	53,627		13,741		13,741
Ssangyong Motor Company	2.09	27,655		12,653		12,653
Saehan Industries Inc.	5.67	11,968		11,333		11,333
Samsung Electronics Co., Ltd.	0.02	5,205		9,420		9,420
KT	0.05	8,497		7,978		7,978
Korea Zinc Co., Ltd.	1.91	9,008		6,485		6,485
Daewoo Engineering & Construction Co., Ltd.	1.35	5,077		5,843		5,843
Korea Electric Power Corporation	0.05	6,120		5,475		5,475
Daewoo Heavy Industries & Machinery Ltd.	1.11	3,164		5,243		5,243
ByuckSan Engineering & Construction Co., Ltd.	5.25	6,610		4,631		4,631
Shinwon Corp.	8.38	9,873		4,366		4,366
Others	-	22,779		21,457		21,457
		<u>₩ 430,525</u>		<u>₩ 253,267</u>		<u>₩ 253,267</u>
Marketable equity securities (KOSDAQ)						
C&H Capital Co., Ltd.	9.75	8,135		3,867		3,867
KED Media Co., Ltd.	2.80	500		939		939
Tae Young Telstar Co., Ltd.	3.33	1,000		760		760
Han Kook Capital Co., Ltd.	1.71	1,203		757		757
Miju Steel Co., Ltd	4.30	1,348		540		540
Ssangyong Engineering & Construction Co., Ltd.	1.07	952		444		444
KTF	0.01	436		360		360
Shinwon Construction Co., Ltd.	2.02	1,622		322		322
Systems Technology Inc.	3.03	250		300		300
Others	-	7,652		549		549
		<u>₩ 23,098</u>		<u>₩ 8,838</u>		<u>₩ 8,838</u>

Continued:

Issuer	Ownership (%)	Acquisition Cost	Fair Value or Net Asset Value ¹⁾	In Millions of Won	
				Balance Sheet Amount	
Non-marketable equity securities					
Mutual Fund ²⁾	11.87	₩ 103,353	₩ 92,239	₩	92,239
Korea Housing Guarantee Co., Ltd.	11.79	53,329	76,543		68,648
KT Icom Co., Ltd.	2.08	37,465	37,840		37,465
Dongbu Electronics Co., Ltd.	6.61	30,000	20,702		30,000
Hyundai Petrochemical Co., Ltd.	9.31	20,173	73,184		20,173
Daewoo Electronics Co., Ltd.	1.85	9,862	384		9,862
The Korea Securities Finance Corp.	2.40	8,160	10,371		8,160
Korea Asset Management Corp.	5.38	7,827	16,563		7,827
Samsung Life Insurance Co., Ltd.	0.11	7,479	5,988		7,479
Korea Highway Corp.	0.12	6,248	14,716		6,248
BC Card Co., Ltd.	4.95	5,738	8,040		5,738
Mirae Asset Securities Co., Ltd.	4.43	5,000	7,679		5,000
Hanwha Investment Trust Management Co., Ltd.	11.00	3,487	4,162		3,487
Korea Vilene Co., Ltd.	10.00	3,000	3,455		3,000
Alpha Capital Corp.	14.97	3,919	2,838		2,838
Hyundai Home Shopping Network Corp.	5.96	2,680	1,674		2,680
National Information & Credit Evaluation Inc.	7.85	2,668	3,682		2,668
Korea Aerospace Industries, Ltd.	0.46	2,179	1,355		2,179
Korea Digital Satellite Broadcasting Co., Ltd.	0.65	2,174	1,643		2,174
Kyobo Investment Trust Management Co., Ltd.	7.00	2,100	3,179		2,100
Others	-	64,190	35,762		37,416
		381,031	421,999		357,381
Equity securities denominated in foreign currencies					
Asia Credit Services (PTE) Ltd.	6.67	12,004	9,892		9,892
Nanjing Kumho Tire Co., Ltd.	6.00	2,553	2,006		2,553
Investment Development Leasing Co.	10.00	1,539	2,089		2,089
Pan Asia Paper (Thailand) Co., Ltd.	2.94	3,257	2,047		2,047
Sahaviriya Steel Industry	1.09	900	2,016		2,016
Baring Communications Equity	6.73	4,921	1,947		1,947
China Enterprise Development Fund	2.63	1,224	1,224		1,224
Asia Finance and Investment Corp.	2.17	3,001	1,179		1,179
Tianjin Samsung Opto- Electronics.	10.00	1,173	1,381		1,173
Chase Securities Int'l (LONDON) and others	-	2,508	5,631		2,508
		33,080	29,412		26,628
		₩ 867,734	₩ 713,516		₩ 646,114

¹⁾ Net asset value is calculated using the monthly closing information of investees as of December 31, 2002 if possible, otherwise the most recent financial information is used.

²⁾ Investments in mutual funds are calculated using the net asset value per share provided by restructuring funds which consist of Seoul Debt-Restructuring Fund, Airrang Restructuring Fund, and Mukungwha Restructuring Fund formed to support corporate restructuring.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Unrealized gains and losses on investment securities included in net income for the year ended December 31, 2002 are summarized as follows:

	In Millions of Won		
	Beginning Balance	Fair Value/ Net Asset Value	Unrealized Gains (Losses)
Investment in special funds			
Stock market stabilization fund	₩ 10,577	₩ 12,947	₩ 2,370
Beneficiary certificates			
Special fund for corporate bonds	976	628	(348)
	₩ 11,553	₩ 13,575	₩ 2,022

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 year as unrealized gains and losses on investment in special funds.

Impairment losses on investment securities for the year ended December 31, 2002 are as follows:

	In Millions of Won		
Issuer	Acquisition Cost	Impairment Loss	Book Value
Equity Securities			
Marketable equity securities (KSE)			
Hyundai Construction Co., Ltd.	₩ 140,125	₩ 91,928	₩ 48,197
KP Chemical Co., Ltd.	36,650	13,832	22,818
Daewoo Securities Co., Ltd.	53,627	39,886	13,741
Ssangyong Motor Company	27,655	15,002	12,653
Woo Bang Housing & Construction Co., Ltd.	6,122	2,524	3,598
Shinwon Corp.	9,873	5,507	4,366
Hanmi Capital Co., Ltd.	2,335	994	1,341
Saehan Industries Inc.	11,968	635	11,333
Kunyoung Co., Ltd.	762	598	164
Hyundai Metal Co., Ltd. (common stock)	575	399	176
Hyundai Metal Co., Ltd. (preferred stock)	266	206	60
Jindo Corporation	207	191	16
Maxon Telecom. Co., Ltd. (preferred stock)	830	97	733
Others	285	104	181
	291,280	171,903	119,377
Marketable equity securities (KOSDAQ)			
C&H Capital	8,135	4,268	3,867
Hansol Mutual Savings Bank	1,685	1,580	105
Eyesvision Corp.	1,491	1,425	66
Prochips Technology Inc.	1,323	1,189	134
Shinwon Construction Co., Ltd.	1,622	1,300	322
Miju Steel Mfg.	1,348	808	540
Growell Telecom	1,000	868	132
NetSecure Technology Inc.	954	841	113
Han Kook Capital Co., Ltd.	1,203	446	757
Ssangyong Engineering & Construction Co., Ltd.	952	508	444
Seohan Engineering & Construction Co., Ltd.	1,201	1,201	-
	₩ 20,914	₩ 14,434	₩ 6,480

Continued:

Issuer	In Millions of Won		
	Acquisition Cost	Impairment Loss	Book Value
Non-marketable equity securities			
Daewoo Electronics Co., Ltd.	₩ 23,800	₩ 23,800	₩ -
Chonggu Co., Ltd.	904	904	-
Kohap Corp.	860	860	-
Daewoo Telecom Co., Ltd.	417	417	-
Alpha Capital Corp.	3,919	1,081	2,838
Orion Electric Co., Ltd.	614	614	-
Seohan Engineering & Construction Co., Ltd. (preferred stock)	178	178	-
	<u>30,692</u>	<u>27,854</u>	<u>2,838</u>
Equity securities denominated in foreign currencies			
Baring Communications Equity	4,921	2,974	1,947
Asia Credit Services (PTE) Ltd.	12,004	2,112	9,892
Asia Finance and Investment Corp.	3,001	1,822	1,179
Pan Asia Paper (Thailand) Co., Ltd.	3,257	1,210	2,047
	<u>23,183</u>	<u>8,118</u>	<u>15,065</u>
	<u>366,069</u>	<u>222,309</u>	<u>143,760</u>
Debt Securities			
Corporate bonds			
Hyundai Engineering & Construction Co. Ltd.	69,400	40,811	28,589
Kookmin-2 nd ABS Specialty Co., Ltd.	10,000	209	9,791
Kookmin-4 th ABS Specialty Co., Ltd.	6,500	480	6,020
Kookmin-5 th ABS Specialty Co., Ltd.	4,000	1,166	2,834
H&CB 200105 ABS Specialty Co., Ltd.	23,500	7,459	16,041
	<u>113,400</u>	<u>50,125</u>	<u>63,275</u>
Debt securities denominated in foreign currencies			
Daehan Global	43,296	14,726	28,570
Essar Gujarat LTD	1,801	1,321	480
SMM Finance	1,500	1,170	330
PT Argo Pantes	1,500	780	720
Amsteel corp.	900	666	234
PT Bakrie Invest.	721	663	58
Berjaya Group capital	1,991	530	1,461
Tuntex	899	269	630
PT Fiskaragung	180	180	-
PT Pelabuan	14,028	5,025	9,003
PT Bank Indonesia Raya	1,501	1,471	30
Kohap Global	360	360	-
PT Dhamala	300	270	30
Berjaya Group capital	852	226	626
	<u>69,829</u>	<u>27,657</u>	<u>42,172</u>
	<u>183,229</u>	<u>77,782</u>	<u>105,447</u>
	<u>₩ 549,298</u>	<u>₩ 300,091</u>	<u>₩ 249,207</u>

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

For the year ended December 31, 2002, the recovery of impairment losses on investment equity securities amounts to ₩15,318 million related to the investments in Korea Housing Guarantee Co., Ltd. and the recovery of impairment losses on investment debt securities amounts to ₩6,800 million and ₩5,580 million related to the investments in Kookmin-3 rd ABS Specialty Co., Ltd. and Kookmin-4 th ABS Specialty Co., Ltd., respectively.

Investment securities risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won			
	Securities in Won ¹⁾		Securities in Foreign Currencies	
	Amount	Ratio (%)	Amount	Ratio (%)
By Country				
Korea	₩ 24,011,157	100.00	₩ 948,035	78.69
USA	-	-	66,826	5.55
Philippines	-	-	63,323	5.26
Germany	-	-	30,010	2.49
Mexico	-	-	20,007	1.66
India	-	-	18,393	1.53
Indonesia	-	-	16,911	1.40
Hong Kong	-	-	11,994	1.00
Singapore	-	-	9,892	0.82
Thailand	-	-	8,944	0.74
Others	-	-	10,450	0.86
	<u>₩ 24,011,157</u>	<u>100.00</u>	<u>₩ 1,204,785</u>	<u>100.00</u>
By Type				
Fixed rate bonds	₩ 13,845,146	57.66	₩ 366,754	30.44
Floating rate bonds	4,837,248	20.15	430,055	35.70
Subordinated bonds	422,708	1.76	152,019	12.62
Convertible bonds	30,128	0.13	112,689	9.35
Equity securities	1,606,008	6.69	143,268	11.89
Others	3,269,919	13.61	-	-
	<u>₩ 24,011,157</u>	<u>100.00</u>	<u>₩ 1,204,785</u>	<u>100.00</u>
By Industry				
Government and municipalities	₩ 4,596,855	19.14	₩ 5,064	0.42
Government agencies	8,186,233	34.09	139,019	11.54
Financial institutions	8,226,736	34.26	578,608	48.03
Others	3,001,333	12.51	482,094	40.01
	<u>₩ 24,011,157</u>	<u>100.00</u>	<u>₩ 1,204,785</u>	<u>100.00</u>

¹⁾ Securities lent are not included.

Continued:

The maturities of the investment securities, excluding investment equity securities, investment in special funds, and securities lent, as of December 31, 2002 are summarized as follows:

In Millions of Won

	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Others	Securities in Foreign Currencies	Total
Due in 3 months or less	₩ 58,350	₩ 569,808	₩ 749,432	₩ 2,370,296	₩ 1,914	₩ 86,860	₩ 3,836,660
Due after 3 months through 6 months	18,230	880,899	567,726	476,833	-	98,285	2,041,973
Due after 6 months through 9 months	354,832	91,713	4,282,186	182,908	-	39,347	4,950,986
Due after 9 months through 1 year	102,189	443,170	567,668	201,816	-	30,293	1,345,136
Due after 1 year through 2 years	938,035	1,048,512	2,505,754	-	-	144,074	4,636,375
Due after 2 years through 3 years	1,422,801	109,811	1,469,141	-	-	253,965	3,255,718
Due after 3 years through 4 years	361,502	30,000	676,795	-	-	127,848	1,196,145
Due after 4 years through 5 years	1,097,076	-	217,206	-	-	156,604	1,470,886
Thereafter	254,871	-	317,523	-	-	124,241	696,635
	₩ 4,607,886	₩ 3,173,913	₩ 11,353,431	₩ 3,231,853	₩ 1,914	₩ 1,061,517	₩ 23,430,514

Currency concentrations of securities denominated in foreign currencies as of December 31, 2002 are as follows:

In Millions of Won

	Trading Securities		Investment Securities	
	Amount	Ratio (%)	Amount	Ratio (%)
USD	₩ 11,842	100.00	₩ 1,095,652	90.94
GBP	-	-	47,739	3.96
JPY	-	-	44,840	3.72
DEM	-	-	5,667	0.47
EUR	-	-	5,106	0.42
THB	-	-	2,741	0.23
BDT	-	-	2,089	0.17
PHP	-	-	451	0.04
CHF	-	-	367	0.04
IDR	-	-	133	0.01
	₩ 11,842	100.00	₩ 1,204,785	100.00

Securities lent as of December 31, 2002 are as follows:

In Millions of Won

Company	Security	Amount
LG Engineering & Construction Co., Ltd.	Government and municipal bonds	₩ 47,835

Trading and investment securities of ₩7,830,956 million (par value) can be discounted at the Bank of Korea as of December 31, 2002.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, the following investment securities are pledged at various institutions:

Transaction	Related Liability		Securities Provided	
		Amount	Book Value	Pledge Value
Bonds sold under repurchase agreements	₩	3,074,161	₩ 3,907,187	₩ 3,855,399
Borrowings from the Bank of Korea		671,854	2,141,059	2,119,350
Derivatives transactions		Borrowing within credit line	105,407	110,033
BOK settlements		Borrowing within credit line	507,753	504,300
Sale of non-performing loans		Borrowing within credit line	168,100	166,671
Borrowings denominated in foreign currencies		1,670	1,895	1,900
			₩ 6,831,401	₩ 6,757,653

6. Loans

Loans as of December 31, 2002 and 2001 are summarized as follows:

Account	Detailed Account	2002	2001
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	₩ 28,904,621	₩ 22,974,003
	Notes discounted	1,851,133	2,235,289
	Overdraft accounts	568,702	584,909
	Trading notes	814,759	736,886
	Other operation loans	3,229,851	2,755,620
		<u>35,369,066</u>	<u>29,286,707</u>
	Facility loans		
	General facility loans	4,676,506	3,117,383
	Other facility loans	1,287,125	1,317,064
		<u>5,963,631</u>	<u>4,434,447</u>
		<u>41,332,697</u>	<u>33,721,154</u>
Consumer loans	General consumer loans	39,713,543	34,367,459
	Consumer housing loans	33,731,435	25,342,969
	Remunerations on mutual installment savings	131,768	57,099
	Other consumer loans	632,172	224,360
		<u>74,208,918</u>	<u>59,991,887</u>
Public loans	Public operation loans	738,632	730,598
	Public facility loans	39,414	57,211
		<u>778,046</u>	<u>787,809</u>
Other loans	Property formation loans	95,252	154,069
	Inter-bank loans	20,941	36,110
	Others	36,251	7,740
		<u>152,444</u>	<u>197,919</u>
		₩ 116,472,105	₩ 94,698,769

Continued:

Account	Detailed Account	In Millions of Won	
		2002	2001
Loans in foreign currencies	Domestic funding loans	₩ 1,052,800	₩ 1,558,146
	Overseas funding loans	933,010	1,159,421
	Inter-bank loans	1,094,119	1,163,547
	Domestic usance bills	1,334,006	286,155
	Government funding loans	3,241	6,968
		<u>4,417,176</u>	<u>4,174,237</u>
Bills bought in Won		<u>37,415</u>	<u>50,893</u>
Bills bought in foreign currencies		<u>756,300</u>	<u>1,006,095</u>
Payments on guarantees		<u>52,430</u>	<u>199,831</u>
Credit card accounts		<u>5,748,806</u>	<u>4,706,223</u>
Bonds purchased under resale agreements ("RP")		<u>-</u>	<u>640,000</u>
Call loans	Call loans in Won	33,600	1,293,900
	Call loans in foreign currencies	248,857	261,113
	Inter-bank reconciliation funds	89,287	124,615
		<u>371,744</u>	<u>1,679,628</u>
Privately placed debentures		<u>1,276,080</u>	<u>1,991,735</u>
Loans due for equity conversion		<u>7,643</u>	<u>212,831</u>
		<u>129,139,699</u>	<u>109,360,242</u>
Allowances for loan losses (Note 7)		(2,378,696)	(2,271,179)
Present value discounts		(30,442)	(59,104)
		<u>₩ 126,730,561</u>	<u>₩ 107,029,959</u>

As of December 31, 2002, restructured loans due to workout plans or other similar restructuring programs are as follows:

	Settlements by Issuance or Grants of							
	Balances before Restructuring	Exemption	Loans due for Equity Conversion	Equity Securities	Convertible Bonds	Balances after Restructuring	Present Value Discounts	
Workout	₩ 285,613	₩ 2,891	₩ -	₩ 132,601	₩ 17,287	₩ 132,834	₩ 6,116	
Court receivership	117,385	-	3,932	96,228	-	17,225	2,811	
Court mediation	101,325	-	-	-	-	101,325	1,181	
Others	201,985	-	3,711	-	-	198,274	20,334	
	<u>₩ 706,308</u>	<u>₩ 2,891</u>	<u>₩ 7,643</u>	<u>₩ 228,829</u>	<u>₩ 17,287</u>	<u>₩ 449,658</u>	<u>₩ 30,442</u>	

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

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

The maturities of loans as of December 31, 2002 are as follows:

In Millions of Won

	Loans in Won	Loans in Foreign Currencies	Bills Bought ¹⁾	Credit Card	Call Loans	Privately Placed Debentures	Others	Total
Due in 3 months or less	₩ 14,800,984	₩ 2,265,001	₩ 657,033	₩ 2,641,378	₩ 371,744	₩ 80,123	₩ 54,138	₩ 20,870,401
Due after 3 months								
through 6 months	13,914,175	289,824	111,137	2,582,159	-	90,047	3,711	16,991,053
Due after 6 months								
through 1 year	24,263,747	326,914	8,123	472,636	-	286,255	-	25,357,675
Due after 1 year								
through 2 years	19,227,010	371,445	7,160	24,089	-	335,133	-	19,964,837
Due after 2 years								
through 3 years	26,672,996	272,825	7,160	13,828	-	419,494	-	27,386,303
Due after 3 years								
through 4 years	2,438,447	153,194	3,102	9,767	-	59,889	-	2,664,399
Due after 4 years								
through 5 years	3,058,132	140,286	-	4,949	-	5,012	-	3,208,379
Thereafter	12,096,614	597,687	-	-	-	127	2,224	12,696,652
	₩116,472,105	₩ 4,417,176	₩ 793,715	₩ 5,748,806	₩ 371,744	₩ 1,276,080	₩ 60,073	₩129,139,699

¹⁾ Bills bought in Won and Bills bought in foreign currencies.

Loan risk concentrations as of December 31, 2002 are as follows:

In Millions of Won

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
By Country					
Korea	₩116,472,105	₩ 3,873,416	₩ 8,001,643	₩128,347,164	99.39
Southeast Asia	-	60,297	96,682	156,979	0.12
Russia	-	118,840	-	118,840	0.09
China	-	5,051	-	5,051	0.01
Japan	-	245,078	-	245,078	0.19
USA/ Latin America	-	37,480	7,443	44,923	0.03
Others	-	77,014	144,650	221,664	0.17
	₩116,472,105	₩ 4,417,176	₩ 8,250,418	₩129,139,699	100.00
By Customer and Industry					
Industrial loans					
Financial institutions	₩ 748,688	₩ 1,187,649	₩ 432,427	₩ 2,368,764	1.83
Manufacturing companies	14,360,918	1,582,066	1,203,516	17,146,500	13.28
Service companies	3,599,523	881,345	91,945	4,572,813	3.54
Others	22,675,311	696,728	773,723	24,145,762	18.70
	41,384,440	4,347,788	2,501,611	48,233,839	37.35
Household loans	74,309,619	59,642	5,748,807	80,118,068	62.04
Public and other loans	778,046	9,746	-	787,792	0.61
	₩116,472,105	₩ 4,417,176	₩ 8,250,418	₩129,139,699	100.00

Continued:

7. Allowances for Loan Losses

As of December 31, 2002 and 2001, allowances for loan losses are as follows:

Allowance for	In Millions of Won	
	2002	2001
Loans in Won	₩ 1,905,208	₩ 1,509,863
Loans in foreign currencies	103,838	225,172
Bills bought in Won and foreign currencies	20,213	97,269
Payments on guarantees	18,382	91,836
Credit card accounts	284,491	148,349
Privately placed debentures	28,210	97,394
Loans due for equity conversion	5,373	65,918
Suspense receivables	11,022	8,224
Others	1,959	27,154
	₩ 2,378,696	₩ 2,271,179

As of December 31, 2002, allowances for loan losses and credit risk classifications are as follows:

		In Millions of Won					
		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Loan balance	₩108,193,204	₩ 5,242,139	₩ 2,260,061	₩ 513,701	₩ 36,646	₩116,445,751
	Allowances	720,363	210,049	460,035	278,115	236,646	1,905,208
	Percentage(%)	0.67	4.01	20.35	54.14	100.00	1.64
Loans in foreign currencies	Loan balance	3,993,389	233,441	145,797	33,348	7,180	4,413,155
	Allowances	14,496	14,005	46,701	21,456	7,180	103,838
	Percentage(%)	0.36	6.00	32.03	64.34	100.00	2.35
Bills bought ¹⁾	Loan balance	673,588	101,725	2,263	5,956	10,183	793,715
	Allowances	3,368	2,035	453	4,174	10,183	20,213
	Percentage(%)	0.50	2.00	20.02	70.08	100.00	2.55
Payments on guarantees	Loan balance	11,306	4,695	19,784	5,521	11,124	52,430
	Allowances	57	482	3,957	2,762	11,124	18,382
	Percentage(%)	0.50	10.27	20.00	50.03	100.00	35.06
Credit card accounts	Loan balance	5,095,728	360,890	113	254,677	37,398	5,748,806
	Allowances	50,957	43,307	23	152,806	37,398	284,491
	Percentage(%)	1.00	12.00	20.35	60.00	100.00	4.95
Call loans	Loan balance	371,744	-	-	-	-	371,744
	Allowance	-	-	-	-	-	-
	Percentage(%)	-	-	-	-	-	-
Privately placed debentures	Loan balance	1,174,838	32,937	57,779	9,584	875	1,276,013
	Allowances	5,874	1,339	12,288	7,834	875	28,210
	Percentage(%)	0.50	4.07	21.27	81.74	100.00	2.21
Loans due for equity conversion ²⁾	Loan balance	-	-	2,103	5,540	-	7,643
	Allowances	-	-	1,144	4,229	-	5,373
	Percentage(%)	-	-	54.40	76.33	-	70.30
Total loans	Loan balance ²⁾	₩119,513,797	₩ 5,975,827	₩ 2,487,900	₩ 828,327	₩ 303,406	₩129,109,257
	Allowances ³⁾	795,115	271,217	524,601	471,376	303,406	2,365,715
	Percentage(%)	0.67	4.54	21.09	56.91	100.00	1.83

¹⁾ Bills bought in Won and foreign currencies

²⁾ The above amounts of loan balances are net of present value discounts.

³⁾ The above amounts of allowances for loan losses do not include the allowances for suspense receivables and other allowances.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

For the years ended December 31, 2002 and 2001, the allowances for loan losses changed as follows:

	In Millions of Won	
	2002	2001
Beginning Balance	₩ 2,271,179	₩ 1,826,700
Increase due to:		
Provision for loan losses	1,593,479	992,249
Business combination with H&CB	-	969,078
Collection of written-off loans	269,533	97,123
Troubled debt restructuring	60,939	45,458
Repurchase of loans sold	6,424	3,404
Others	-	28,330
	<u>1,930,375</u>	<u>2,135,642</u>
Decrease due to:		
Written-off loans	1,527,311	1,090,029
Sale of loans	65,174	372,272
Conversion of loans into equity securities	136,185	164,422
Exemption of loans	8,364	36,675
Offset with present value discounts from troubled debt restructuring	61,104	27,765
Changes in exchange rates and others	24,720	-
	<u>1,822,858</u>	<u>1,691,163</u>
Ending Balance	<u>₩ 2,378,696</u>	<u>₩ 2,271,179</u>

As of December 31, 2002, 2001 and 2000, the ratios of allowances for loan losses to loans are as follows:

	In Millions of Won		
	2002	2001	2000
Loans ¹⁾	₩129,109,257	₩109,301,138	₩ 52,397,111
Allowances for loan losses ²⁾	2,365,715	2,235,801	1,826,700
Ratio (%)	<u>1.83</u>	<u>2.05</u>	<u>3.49</u>

¹⁾ The above amounts of loans are net of present value discounts

²⁾ The above amounts of allowances for loan losses do not include the allowances for suspense receivables and other allowances.

8. Fixed Assets

Fixed assets as of December 31, 2002 and 2001 comprise the following:

	2002			2001		
	Acquisition Cost	Accumulated Depreciation	Net Carrying Value	Acquisition Cost	Accumulated Depreciation	Net Carrying Value
Tangible assets						
Land	₩ 1,175,681	₩ -	₩ 1,175,681	₩ 1,168,322	₩ -	₩ 1,168,322
Buildings and structures	848,745	108,723	740,022	800,337	89,783	710,554
Leasehold improvements	98,117	48,164	49,953	57,035	29,616	27,419
Equipment and vehicles	1,043,969	533,675	510,294	678,816	361,102	317,714
Constructions in progress	1,197	-	1,197	5,774	-	5,774
	<u>₩ 3,167,709</u>	<u>₩ 690,562</u>	<u>2,477,147</u>	<u>₩ 2,710,284</u>	<u>₩ 480,501</u>	<u>2,229,783</u>
Intangible assets			614,457			692,390
Foreclosed assets (net of valuation allowance)			1,012			2,298
			<u>₩ 3,092,616</u>			<u>₩ 2,924,471</u>

Continued:

In accordance with the General Banking Act, the Bank is prohibited from investing in non-business purpose real property and may only hold business-purpose real property within its own equity amount.

All of the Bank's tangible assets, other than those personal properties valued under ₩1 million, are covered by insurance policies of ₩1,113,446 million and ₩954,656 million as of December 31, 2002 and 2001, respectively. All vehicles are covered by legal and general insurance policies.

Movements in intangible assets for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Increase	Decrease	Ending Balance
Goodwill due to the combination with H&CB	₩ 692,050	₩ -	₩ 78,345	₩ 613,705
Rights to income on donated asset	118	-	8	110
Store possessory right	183	-	22	161
Trademarks	22	1	12	11
Others	17	501	48	470
	<u>₩ 692,390</u>	<u>₩ 502</u>	<u>₩ 78,435</u>	<u>₩ 614,457</u>

The total government-posted price of land, used for tax imposition and compensation for confiscation, as of December 31, 2002 and 2001 is as follows:

	2002		2001	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	₩ 1,175,681	₩ 986,885	₩ 1,168,322	₩ 976,511
Lands included in foreclosed assets	1,923	931	4,253	13,492
	<u>₩ 1,177,604</u>	<u>₩ 987,816</u>	<u>₩ 1,172,575</u>	<u>₩ 990,003</u>

9. Other Assets

Other assets at December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Guarantee deposits paid	₩ 1,235,362	₩ 1,178,742
Accounts receivable	1,877,645	1,539,076
Accrued income	981,141	984,379
Payments in advance	48,390	104,113
Prepaid expenses	12,646	26,684
Deferred tax assets (Note 26)	170,624	119,444
Derivative assets (Note 17)	660,791	278,893
Unsettled domestic exchange assets	1,087,587	1,490,602
Loans to trust accounts	37,882	267,334
Others	23,490	29,127
	<u>₩ 6,135,558</u>	<u>₩ 6,018,394</u>

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

10. Deposits

Deposits as of December 31, 2002 and 2001 comprise the following:

	Annual Interest (%) 2002. 12. 31	2002	2001
In Millions of Won			
Deposits in Won			
Demand deposits			
Checking deposits	-	₩ 134,222	₩ 272,350
Household checking deposits	0.50	469,866	430,716
Passbook deposits	0.50	8,586,219	6,118,412
Temporary deposits	-	3,577,243	3,825,722
Public fund deposits	0.50	207,695	172,215
Others	-	12,497	4,590
		<u>12,987,742</u>	<u>10,824,005</u>
Time deposits and savings deposits			
Time deposits	3.5~5.35	58,187,286	54,665,800
Installment savings deposits	4.2~5.15	1,422,532	1,601,703
Property formation savings	11.69	2,221	2,670
Time and savings deposits of non-residents in Won	2.63	151,124	66,391
General savings deposits	0.5~3.8	21,346,223	20,165,895
Corporate free savings deposits	0.5~3.8	6,556,979	6,269,451
Long term savings deposits for workers	12.38	297,272	473,432
Long term housing savings deposits	5.65	538,782	345,061
Long term savings for households	5.87	2,250,457	3,160,122
Worker's preferential savings deposits	5.35	2,877,467	2,330,304
Worker's savings for housing	1.03	79	106
Mutual installment deposits	3.5~5.25	7,491,115	8,871,193
Mutual installment for housing	4.85~5.25	4,872,637	4,128,489
		<u>105,994,174</u>	<u>102,080,617</u>
		<u>₩118,981,916</u>	<u>₩112,904,622</u>
Deposits in foreign currencies			
Demand deposits			
Checking deposits	0.00~3.00	₩ 29,629	₩ 28,494
Passbook deposits	0.08~0.10	549,646	411,754
Notice deposits	0.15	2,725	11,945
Temporary deposits	-	3,796	4,088
		<u>585,796</u>	<u>456,281</u>
Time deposits and savings deposits			
Time deposits	0.44~7.5	496,359	644,532
Others	5.00~8.00	1,493	1,813
		<u>497,852</u>	<u>646,345</u>
		<u>1,083,648</u>	<u>1,102,626</u>
Certificates of deposit	4.0~4.80	3,044,089	1,154,056
		<u>₩123,109,653</u>	<u>₩115,161,304</u>

The maturities of deposits as of December 31, 2002 are as follows:

In Millions of Won

	Deposits in Won	Deposit in Foreign Currencies	Certificates of Deposits	Total
Due in 3 months or less	₩ 61,110,713	₩ 895,991	₩ 1,496,052	₩ 63,502,756
Due after 3 months through 6 months	13,250,249	94,562	1,480,311	14,825,122
Due after 6 months through 1 year	31,818,169	73,691	67,726	31,959,586
Due after 1 year through 2 years	7,302,870	18,914	-	7,321,784
Due after 2 years through 3 years	4,195,407	416	-	4,195,823
Due after 3 years through 4 years	694,941	-	-	694,941
Due after 4 years through 5 years	264,142	74	-	264,216
Thereafter	345,425	-	-	345,425
	₩118,981,916	₩ 1,083,648	₩ 3,044,089	₩123,109,653

11. Borrowings

Borrowings as of December 31, 2002 and 2001 comprise the following:

In Millions of Won

	Annual Interest (%) 2002. 12. 31	2002	2001
Borrowings in Won			
Borrowings from the Bank of Korea			
Aggregate limitation borrowings	2.50	₩ 671,854	₩ 1,269,155
Others	5.00~8.00	-	1,008
		671,854	1,270,163
Borrowings from the government			
Borrowings from the government fund	4.42~5.00	405,210	362,508
Others	0.00~6.00	651,270	626,654
		1,056,480	989,162
Borrowings from banking institutions			
Debenture funds for the development of small and medium industries	4.50~9.55	318,702	398,637
Borrowings from National Housing Fund	8.00	9,192	9,637
Borrowings from non-banking financial institutions			
Borrowings from Korea Development Bank	2.00~5.00	6,211	4,831
Subordinated borrowings	9.00~11.84	-	25,000
Other finance borrowings	5.59~6.52	-	680,000
		6,211	709,831
Other borrowings			
Borrowings from local governments	2.20~6.50	374,717	435,809
Borrowings from Small and Medium Industry Promotion Fund	4.40~5.68	674,414	723,953
Others	3.00~7.00	80,174	110,637
		1,129,305	1,270,399
		3,191,744	4,647,829
Borrowings denominated in foreign currencies			
Borrowings from domestic banks	1.78~6.95	528,991	652,591
Borrowings from foreign banks	0.19~2.91	1,875,119	1,795,225
Borrowings from other financial institutions	2.13	23,092	148,181
Others	2.15	981,328	-
		3,408,530	2,595,997

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

	Annual Interest (%) 2002. 12. 31	In Millions of Won	
		2002	2001
Bonds sold under repurchase agreements	2.29~4.85	3,074,161	2,959,897
Bills sold	4.00~4.80	72,860	79,443
Due to the Bank of Korea denominated in foreign currencies	-	37,493	126,501
Call money			
Won	3.75~4.15	829,300	1,854,200
Foreign currencies	0.25~5.85	76,666	292,185
		905,966	2,146,385
		₩ 10,690,754	₩ 12,556,052

The maturities of borrowings as of December 31, 2002 are as follows:

	In Millions of Won			
	Borrowings in Won	Borrowings in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 753,448	₩ 2,056,221	₩ 2,940,074	₩ 5,749,743
Due after 3 months through 6 months	113,261	349,331	672,386	1,134,978
Due after 6 months through 1 year	221,520	377,467	478,020	1,077,007
Due after 1 year through 2 years	513,437	314,666	-	828,103
Due after 2 years through 3 years	437,009	265,664	-	702,673
Due after 3 years through 4 years	330,129	161	-	330,290
Due after 4 years through 5 years	246,722	-	-	246,722
Thereafter	576,218	45,020	-	621,238
	₩ 3,191,744	₩ 3,408,530	₩ 4,090,480	₩ 10,690,754

12. Debentures

Debentures as of December 31, 2002 and 2001 comprise the following:

	Annual Interest (%) 2002. 12. 31	In Millions of Won	
		2002	2001
Debentures in Won			
Subordinated debentures	5.68~16.00	₩ 4,753,285	₩ 3,634,357
Discounted debentures	4.46~7.38	9,627,021	2,208,599
Coupon debentures	4.78~10.48	2,268,818	1,077,379
Compound interest debentures	4.76~10.57	373,184	857,823
		17,022,308	7,778,158
Discounts on debentures		(270,924)	(71,758)
		16,751,384	7,706,400
Debentures denominated in foreign currencies			
Regular debentures	1.95~5.00	789,127	1,376,429
Discounts on debentures		(1,504)	(6,801)
		787,623	1,369,628
		₩ 17,539,007	₩ 9,076,028

Continued:

As of December 31, 2002, debentures in Won comprise the following:

	Issue Date	Hundred Millions of Won	Annual Interest (%)	Maturity
Subordinated				
Floating rate				
	1998-12-29	₩ 2,212	5.68	2004-03-31
	1998-12-29	883	6.68	2004-03-31
Fixed rate				
	1997-12-29	1,000	16.00	2004-01-05
	1998-06-18	600	15.66	2003-07-18
	1998-06-23	1,749	15.02	2003-11-15
Fixed rate ¹⁾				
	1997-01-08	1,051	11.04-15.66	2003-01-08
	2000-03-27	2,000	9.65	2005-03-27
	2000-06-28	2,540	9.04-9.10	2006-01-28
	2000-09-27	3,000	8.99	2006-01-27
	2000-09-28	1,500	8.79-8.85	2006-01-28
	2000-11-28	1,000	8.65-8.71	2006-02-28
	2000-11-28	1,620	9.57-9.65	2010-11-28
	2000-12-27	2,000	8.71	2006-01-27
	2001-05-28	2,000	7.60-7.65	2007-02-28
	2001-06-27	1,600	7.68	2008-03-27
	2001-06-27	2,175	7.86	2009-03-27
	2001-08-28	1,000	6.69-6.73	2007-08-28
	2001-09-28	1,500	6.69-6.73	2008-03-28
	2002-03-27	2,417	7.06-7.10	2008-01-27
	2002-07-27	3,024	6.96-7.00	2008-01-27
	2002-09-27	2,574	6.27-6.30	2008-03-27
	2002-09-27	1,500	6.51-6.55	2010-03-27
	2002-09-27	926	6.66-6.70	2013-03-27
	2002-11-27	4,007	6.07-6.10	2008-05-27
	2002-11-27	578	6.27-6.30	2010-05-27
	2002-11-27	1,003	6.51-6.55	2013-05-27
	2002-12-27	304	6.55	2014-12-27
	2002-12-27	100	6.20	2008-06-27
	2002-12-27	900	6.40	2010-06-27
	2002-12-27	500	6.65	2013-06-27
Housing debentures				
	1998-12-29	270	5.68	2004-03-31
Senior				
Fixed rate				
	2000-11-28	2,000	7.01	2003-11-28
	2000-12-28	1,600	7.01	2003-12-28
	2001-02-28	800	5.48	2004-02-28
	2001-06-28	2,300	5.87	2004-06-28
	2001-07-28	600	5.82-5.87	2004-07-28
	2001-08-28	600	5.82	2004-08-28
	1988-07-2003-01	114,777	4.12-10.57	1991-04-2008-01
Housing debentures ¹⁾				
	1989-08-2000-08	13	6.28-16.28	1990-11-2005-03
		₩ 170,223		

¹⁾ Debentures sold over the counter

Continued.

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, debentures denominated in foreign currencies comprise the following:

	Issue Date	Thousands of Dollars		Annual Interest (%) 2002. 12. 31.	Maturity	Listings
Floating rate						
	2000-04-10	USD	40,000	2.86	2003-04-10	Not listed
	2000-06-02	USD	10,000	2.77	2003-06-02	Not listed
	2000-08-10	USD	12,500	2.65	2003-08-11	Not listed
	2002-04-03	USD	46,000	1.95	2003-04-02	Not listed
	2002-04-03	USD	81,000	2.06	2004-04-03	Not listed
	2002-07-03	HKD	800,000	2.02	2003-07-02	Not listed
Fixed rate						
	2000-04-20	SGD	100,000	5.00	2003-04-20	Not listed
	2002-12-10	USD	307,674	4.63	2007-02-10	Luxembourg
USD equivalent (in thousands of USD)		USD	<u>657,387</u>			
KRW equivalent (in millions of Won)		₩	<u>789,127</u>			

The issuance limit of finance debentures issued in Won and foreign currencies is 300% of BIS (bank for international settlements) shareholder's equity according to the Enforcement Ordinance of Bank Law. However, these limits under the Bank Law do not apply to the Bank's long-term bank debentures issued for the repayment of the KLB debentures acquired due to the merger with KLB.

On November 25, 2002, Goldman Sachs Capital Koryo, L.P. converted \$200 million of its subordinated foreign currency convertible bonds, all of which had been outstanding as of December 31, 2002, into common stocks (See Notes 19 and 20).

The maturities of debentures as of December 31, 2002 are as follows:

	In Millions of Won		
	Won	Foreign Currencies	Total
Due in 3 months or less	₩ 2,023,419	₩ -	₩ 2,023,419
Due after 3 months through 6 months	2,840,824	307,557	3,148,381
Due after 6 months through 1 year	5,464,561	15,005	5,479,566
Due after 1 year through 2 years	2,010,272	97,232	2,107,504
Due after 2 years through 3 years	686,878	-	686,878
Due after 3 years through 4 years	1,100,019	-	1,100,019
Due after 4 years through 5 years	374,467	369,333	743,800
Thereafter	2,521,868	-	2,521,868
	<u>₩ 17,022,308</u>	<u>₩ 789,127</u>	<u>₩ 17,811,435</u>

13. Accrued Retirement Benefits

The movements in accrued retirement benefits for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Amounts Provided	Amounts Paid Out	Ending Balance
Retained retirement benefits	₩ 21,973	₩ 39,706	₩ 18,906	₩ 42,773
Contributed retirement benefits	28,414	60,492	224	88,682
Total accrued retirement benefits	50,387	100,198	19,130	131,455
Contribution to National Pension Fund	(33)	-	(33)	-
Contribution to pension funds	(28,414)	(60,492)	(224)	(88,682)
	₩ 21,940	₩ 39,706	₩ 18,873	₩ 42,773

The Bank paid ₩67,905 million as retirement benefits, including ₩48,775 million of special retirement benefits for early retirement.

Contributed retirement benefits, comprising approximately 67.46% of total accrued retirement benefits as of December 31, 2002, represent contributions to pension funds at two insurance companies, including Korea Life Insurance Co., Ltd., and the Bank's employees hold the right of payment from these funds.

14. Employee Stock Options

The Bank, under the approval of the Board of Directors, granted stock options to its executives on March 18, 2000, March 15, 2001, November 16, 2001, March 22, 2002, and July 26, 2002. 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 December 31, 2002 are as follows:

	Stock Options Transferred from H&CB								
	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7 ^{1) 2)}	Series 8 ²⁾	Series 9
Grant date	00.3.18	01.3.15	98.10.31	99.2.27	00.2.28	01.3.24	01.11.16	02.3.22	02.7.26
Shares granted	222,094	214,975	400,000	280,000	267,000	111,000	650,000	622,000	30,000
Shares expired to date	109,565	16,882	-	59,892	65,218	21,173	-	43,000	-
Shares exercised	-	-	320,000	220,108	-	-	-	-	-
Shares outstanding	112,529	198,093	80,000	-	201,782	89,827	650,000	579,000	30,000
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	₩ 58,800
Exercise period	03.3.19~ 05.3.18	04.3.16~ 09.3.15	01.11.1~ 04.10.31	02.2.28~ 05.2.27	03.3.1~ 06.2.28	04.3.25~ 07.3.24	04.11.17~ 09.11.16	05.3.23~ 10.3.22	05.7.27~ 10.7.26

¹⁾ The stock options do not include the shares which will be additionally granted if the recent three-month weighted average stock price of the Bank before exercise is higher than that of any other listed banks and the Bank achieve total market value and ROE target.

²⁾ The exercise price may be affected by the fluctuation of the stock price index of the banking industry.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

The Bank had applied the fair value method using an option-pricing model in measuring compensation cost until the prior period. However, starting from the current period, expecting a high probability of grant and exercise as stock appreciation rights, the Bank changed the measurement method to the intrinsic value method. As a result, previous amounts recorded in capital adjustments (stock options) have been reclassified into accrued expenses. Compensation costs are summarized as follows:

	In Millions of Won						
	Series 1	Series 2	Series 3	Series 5	Series 6	Series 7	Total
Previously recognized compensation cost	₩ 830	₩ 859	₩ 3,584	₩ 1,896	₩ 475	₩ 363	₩ 8,007
Currently recognized compensation cost	1,081	756	(624)	848	411	(363)	2,109
Accumulated compensation cost	1,911	1,615	2,960	2,744	886	-	10,116
Compensation cost to be recognized	174	1,153	-	161	633	-	2,121
Total compensation cost	₩ 2,085	₩ 2,768	₩ 2,960	₩ 2,905	₩ 1,519	₩ -	₩ 12,237

The compensation costs to be recognized in the future are as follows:

	In Millions of Won				
	Series 1	Series 2	Series 5	Series 6	Total
Within 1 year	₩ 174	₩ 923	₩ 161	₩ 506	₩ 1,764
After 1 year through 2 years	-	230	-	127	357
	₩ 174	₩ 1,153	₩ 161	₩ 633	₩ 2,121

15. Other Liabilities

Other liabilities as of December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Accrued retirement benefits (Note 13)	₩ 42,773	₩ 21,940
Allowance for loss on guarantees and acceptances (Note 16)	2,287	43,823
Due to trust accounts	734,646	1,666,520
Accounts payable	2,193,925	1,398,890
Accrued expenses	4,656,225	4,736,583
Advances from customers	48,745	106,570
Unearned income	147,623	148,693
Withholding taxes	85,841	140,185
Guarantee deposits received	112,732	154,248
Derivative liabilities (Note 17)	522,286	272,186
Unsettled domestic exchange liabilities	541,757	1,443,480
Liabilities incurred by Agency relationship	486,413	705,727
Other allowances ¹⁾	48,876	6,510
Accounts for agency business	395,678	254,146
Others	90,224	87,375
	₩ 10,110,031	₩ 11,186,876

¹⁾ Other allowances comprise the following (in millions of Won):

Allowances for	Amounts	Remarks
Suspense receivables	₩ 6,400	Allowance for loss on suspense receivables
Loss on closure of overseas branch	348	Allowance for loss on closure of the branch in Buenos Aires
Uncollected leasehold deposits	4,872	Allowance for loss on uncollected leasehold deposits
Credit card receivables	9,496	Allowance for unused cash advance to offset the risk of loss occurring from it
Credit card point	2,749	Allowance for loss on credit card point reserve
KAMCO loans sold	15,073	Allowance for loss on loans sold under repurchase agreements to KAMCO (See Note 18)
granting of credit to SPC	9,938	Allowance for loss on the agreement of granting of credit to SPC related to KAMCO
	₩ 48,876	

16. Guarantees and Acceptances

Guarantees and acceptances as of December 31, 2002 and 2001 are summarized as follows:

	In Millions of Won	
	2002	2001
Guarantees and acceptances outstanding in		
Won		
Guarantees on debentures	₩ 571	₩ 6,124
Guarantees on loan collateral	39,234	49,110
Guarantees on commercial bills	646	230
Others	248,457	205,331
	<u>288,908</u>	<u>260,795</u>
Foreign Currencies		
Acceptances on letters of credit	190,775	2,476,187
Acceptances for letters of guarantee for importers	111,016	73,267
Guarantees for performance	71,577	177,278
Guarantees for bid	1,077	744
Guarantees for borrowings	31,055	29,028
Guarantees for repayment of advances	25,707	2,440
Others	311,583	502,231
	<u>742,790</u>	<u>3,261,175</u>
	<u>1,031,698</u>	<u>3,521,970</u>
Contingent guarantees and acceptances		
Letters of Credit	1,243,354	1,310,984
Others	63,524	58,739
	<u>1,306,878</u>	<u>1,369,723</u>
	<u>₩ 2,338,576</u>	<u>₩ 4,891,693</u>

As of December 31, 2002, the allowances for losses on guarantees and acceptances outstanding according to credit risk classifications are as follows:

		In Millions of Won						
Guarantees and Acceptances Outstanding in		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total	
Won	Balance	₩ 269,721	₩ 17,215	₩ 1,820	₩ 152	₩ -	₩ 288,908	
	Allowance	-	-	364	143	-	507	
	Ratio (%)	-	-	20.00	94.08	-	0.18	
Foreign currencies	Balance	665,170	69,770	7,512	227	111	742,790	
	Allowance	-	-	1,546	123	111	1,780	
	Ratio (%)	-	-	20.58	54.19	100.0	0.24	
Total	Balance	₩ 934,891	₩ 86,985	₩ 9,332	₩ 379	₩ 111	₩ 1,031,698	
	Allowance	-	-	1,910	266	111	2,287	
	Ratio (%)	-	-	20.47	70.18	100.0	0.22	

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

The allowance ratios to guarantees and acceptances outstanding as of December 31, 2002, 2001 and 2000 are as follows:

	In Millions of Won		
	2002	2001	2000
Guarantees and acceptances outstanding	₩ 1,031,698	₩ 3,521,970	₩ 3,035,968
Allowances for losses from guarantees and acceptances outstanding	2,287	43,823	37,331
Ratio (%)	0.22	1.24	1.23

For the years ended December 31, 2002 and 2001, the allowances for losses on guarantees and acceptances outstanding changed as follows:

	In Millions of Won	
	2002	2001
Beginning balance	₩ 43,823	₩ 37,331
Increase due to the business combination with H&CB	-	14,943
Reversal of allowance	(37,436)	(8,790)
Changes in foreign exchange rates	(4,100)	339
Ending balance	₩ 2,287	₩ 43,823

The guarantees and acceptances risk concentration by country as of December 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	₩ 998,126	96.75	₩ 1,306,710	99.99	₩ 2,304,836	98.56
USA	33,572	3.25	168	0.01	33,740	1.44
	₩ 1,031,698	100.00	₩ 1,306,878	100.00	₩ 2,338,576	100.00

The guarantees and acceptances risk concentration by industry and customer as of December 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						
Manufacturing	₩ 363,123	35.20	₩ 787,928	60.29	₩ 1,151,051	49.22
Finance	58,223	5.64	86	0.01	58,309	2.49
Service	163,107	15.81	40,913	3.13	204,020	8.72
Others	447,245	43.35	477,951	36.57	925,196	39.57
	₩ 1,031,698	100.00	₩ 1,306,878	100.00	₩ 2,338,576	100.00

17. 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 and liabilities.

Continued:

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.

Hedge derivatives comprise mainly of interest rate swaps to hedge the fair value change of debentures arising from the interest rate risk. Some hedge purpose transactions do not qualify for hedge accounting and thus are 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.

The notional amounts outstanding for derivative contracts as of December 31, 2002 and 2001 are as follows:

	In Millions of Won					
	2002			2001		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest related						
Futures	₩ 365,513	₩ -	₩ 365,513	₩ 359,203	₩ -	₩ 359,203
Swap	15,944,472	360,120	16,304,592	4,514,411	358,118	4,872,529
Option	310,700	-	310,700	-	-	-
	<u>16,620,685</u>	<u>360,120</u>	<u>16,980,805</u>	<u>4,873,614</u>	<u>358,118</u>	<u>5,231,732</u>
Currency related						
Forward	13,186,586	-	13,186,586	8,473,527	-	8,473,527
Futures	739,386	-	739,386	620,018	-	620,018
Swap	3,254,755	-	3,254,755	2,529,233	-	2,529,233
Option bought	48,616	-	48,616	2,652	-	2,652
Option sold	127,863	-	127,863	5,304	-	5,304
	<u>17,357,206</u>	<u>-</u>	<u>17,357,206</u>	<u>11,630,734</u>	<u>-</u>	<u>11,630,734</u>
Stock related						
Option bought	137,147	-	137,147	4,989	-	4,989
Option sold	100,000	-	100,000	-	-	-
	<u>237,147</u>	<u>-</u>	<u>237,147</u>	<u>4,989</u>	<u>-</u>	<u>4,989</u>
Credit related						
	-	-	-	39,783	-	39,783
	<u>₩34,215,038</u>	<u>₩ 360,120</u>	<u>₩34,575,158</u>	<u>₩ 16,549,120</u>	<u>₩ 358,118</u>	<u>₩ 16,907,238</u>

Gains and losses on derivatives are as follows:

	In Millions of Won	
	2002	2001
Gain on derivatives		
Gain on derivatives transactions	₩ 1,760,743	₩ 2,112,919
Gain on valuation of derivatives	603,633	165,223
Gain on fair value hedged items	-	14,077
	<u>₩ 2,364,376</u>	<u>₩ 2,292,219</u>
Loss on derivatives		
Loss on derivatives transactions	₩ 1,594,025	₩ 2,088,619
Loss on valuation of derivatives	561,749	229,297
Loss on fair value hedged items	9,213	1,516
	<u>₩ 2,164,987</u>	<u>₩ 2,319,432</u>

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Derivative valuation gains and losses for the year ended December 31, 2002 are as follows:

	In Millions of Won								
	Valuation Gains(P/L)			Valuation Losses (P/L)			Fair Value (B/S)		
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability	
Interest related									
Option	₩ 191	₩ -	₩ 191	₩ 176	₩ -	₩ 176	₩ 375	₩ 334	
Swap	136,417	9,213	145,630	236,359	-	236,359	139,991	236,225	
	<u>136,608</u>	<u>9,213</u>	<u>145,821</u>	<u>236,535</u>	<u>-</u>	<u>236,535</u>	<u>140,366</u>	<u>236,559</u>	
Currency related									
Forward	230,877	-	230,877	209,814	-	209,814	230,261	198,829	
Option bought	1,405	-	1,405	-	-	-	1,023	-	
Option sold	-	-	-	732	-	732	-	872	
Swap	223,171	-	223,171	112,319	-	112,319	282,226	81,347	
	<u>455,453</u>	<u>-</u>	<u>455,453</u>	<u>322,865</u>	<u>-</u>	<u>322,865</u>	<u>513,510</u>	<u>281,048</u>	
Stock related									
Option bought	2,359	-	2,359	-	-	-	6,915	-	
Option sold	-	-	-	2,349	-	2,349	-	4,679	
	<u>2,359</u>	<u>-</u>	<u>2,359</u>	<u>2,349</u>	<u>-</u>	<u>2,349</u>	<u>6,915</u>	<u>4,679</u>	
	<u>₩ 594,420</u>	<u>₩ 9,213</u>	<u>₩ 603,633</u>	<u>₩ 561,749</u>	<u>₩ -</u>	<u>₩ 561,749</u>	<u>₩ 660,791</u>	<u>₩ 522,286</u>	

18. Commitments and Contingencies

As of December 31, 2002, 136 pending legal actions with an aggregate amount of claims of ₩190,397 million are charged against the Bank and the Bank had also filed 171 lawsuits which are still pending with an aggregate amount of claims of ₩117,534 million. Management believes that the actions related to the Bank are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

The Bank, under the Mutual Savings & Finance Company Act, is liable for the payment of the deposits of Orange Mutual Savings & Finance Co., Ltd. (previously, Kookmin Mutual Savings & Finance Co., Ltd.) and Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.), previously the Bank's subsidiaries but which were sold during 1999, if they enter into bankruptcy within 3 years of sale. Orange Mutual Savings & Finance Co., Ltd. is currently under going bankruptcy procedures due to the disapproval of its business by the Financial Supervisory Commission. Korea Deposit Insurance Corporation (KDIC) has paid for the deposit money subject to the Depositor Protection Act. Despite the fact that Resolution and Finance Corp. (a subsidiary of KDIC) has filed a lawsuit against the Bank for the recovery of the repayment, such lawsuit is not expected to cause any loss which could materially affect the Bank's financial statements.

The Bank has credit lines with commitments to purchase commercial paper from asset securitization companies. Under these commitments, the Bank provides money, in case of a temporary fund shortage, for the principal and interest repayment of these companies' senior bonds within the contracted term and amounts. As of December 31, 2002, under these commitments, the aggregate committed credit line and loans outstanding are ₩3,280,638 million and ₩26,762 million, respectively. Also, the Bank entered into arrangements to purchase ₩1,617,000 million of commercial papers issued by the securitization companies. The Bank has arranged various methods to compensate for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash reserve. Also, resulting expected losses amounting to ₩9,938 million are reserved as other allowances (See Note 15).

Pursuant to asset securitization plans, the Bank previously sold loans to special purpose entities in previous periods. The related contracts for asset securitization stipulate the Bank's performance of warranty liability for loans sold to Kookmin 6th-ABS Specialty Co., Ltd. and Joeeun 5th-ABS Specialty Co., Ltd. (collectively, "the SPEs") when underlying loans are delinquent for certain period of time or

Continued:

go into default. Accordingly, the Bank bears possible liabilities for collateral performance toward the SPEs within the limits of ₩72,000 million and ₩66,500 million, respectively, as of December 31, 2002. No adjustments have been made in the accompanying financial statements related to such uncertainties.

As of December 31, 2002, loans sold to Korea Asset Management Corporation ("KAMCO") has all been settled and the Bank provided an allowance of ₩15,073 million for estimated losses from repurchase of loans sold to KAMCO that are under the repurchase agreement (See Note 15).

The Bank sold 65.43% of its 85.43% investment in Jooeun Leasing Co., Ltd. and ₩172,024 million of loans to Sun Capital Inc. for ₩145,000 million on August 30, 2002. The Bank also sold an additional 5.03% of its investment in Jooeun Leasing Co., Ltd. to Sun Capital Inc. for ₩900 million on October 28, 2002.

The Bank sold its 87.00% ownership of Kookmin Investment Trust Management Co., Ltd. and 88.66% ownership of Kookmin Leasing Co., Ltd. to Morgan Stanley Private Equity, the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds, and Sun Capital Inc. on May 29, 2002 and December 27, 2002, respectively, and the Bank recognized losses on disposition of investment securities amounting to ₩10,752 million and ₩365 million, respectively.

As of December 31, 2002 and 2001, the Bank holds the unexpired rights to claim from borrowers or guarantors for loans in accordance with the relevant law, which has already been written off, amounting to ₩3,750,402 million and ₩2,490,069 million, respectively.

As of December 31, 2002 and 2001, the Bank holds endorsed bills amounting to ₩9,285 million and ₩13,474 million, respectively.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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.

Certain financially troubled borrowers of the Bank including Korea Data System Co., Ltd. are experiencing a cash crisis or in the debt restructuring process under workout plans and other similar programs. As of December 31, 2002, in relation to such borrowers, total loans outstanding including guarantees and acceptances amounted to ₩639,037 million, and the related allowances and discounted present value amounted to ₩170,259 million and ₩4,735 million, respectively.

The Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

19. Capital Stock

As of December 31, 2002, the Bank has 1,000,000,000 common shares (par value: ₩5,000) authorized and 328,258,685 shares issued and Goldman Sachs Capital Koryo, L.P., ING Insurance International B.V., and the Korean government own 5.13%, 3.87%, and 9.33%, respectively, of the total issued shares. During the current period, Goldman Sachs Capital Koryo, L.P. sold the 14,470,000 common shares as ADSs. As a result, as of December 31, 2002, 37,728,214 common shares, equivalent to 11.49% of the total issued shares, are listed on the New York Stock Exchange as ADSs and are managed by Bank of New York, the 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% shareholders.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

As a result of the business combination with H&CB, the shareholders of the Bank and H&CB, listed on the Register of Shareholders at October 31, 2001, received 179,775,233 new shares and 119,922,229 new shares of the Bank, respectively, at the exchange ratio of one new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB respectively.

In accordance with the resolution of the general shareholders' meeting on March 22, 2002, the Bank approved a 6% stock dividend for shareholders listed on the Register of Shareholders at December 31, 2001 and issued 17,979,954 shares.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of ₩2,500 billion and ₩500 billion, respectively. On November 25, 2002, Goldman Sachs Capital Koryo, L.P. converted \$200 million of its subordinated foreign currency convertible bonds, equivalent to ₩265,220 million, all of which had been outstanding as of December 31, 2002, into 10,581,269 shares of common stock at ₩22,124 per share. The Bank also recorded ₩180,919 million, net of stock issuance costs of ₩275 million, as paid-in capital in excess of par value in capital surplus (See Notes 12 and 20).

20. Capital Surplus

Capital surplus as of December 31, 2002 and 2001 comprises the following:

	In Millions of Won	
	2002	2001
Paid-in capital in excess of par value	₩ 5,287,708	₩ 5,107,251
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Others	2,146	1,815
	<u>₩ 5,864,752</u>	<u>₩ 5,683,964</u>

The movements in capital surplus for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Increase ¹⁾	Decrease ²⁾	Ending Balance
Paid-in capital in excess of par value	₩ 5,107,251	₩ 181,194	₩ 737	₩ 5,287,708
Gain on business combination ³⁾	397,669	-	-	397,669
Revaluation increment	177,229	-	-	177,229
Others	1,815	331	-	2,146
	<u>₩ 5,683,964</u>	<u>₩ 181,525</u>	<u>₩ 737</u>	<u>₩ 5,864,752</u>

¹⁾ The increase in paid-in capital in excess of par value is due to the amount in excess of par value in the conversion of foreign currency convertible bonds (See Notes 12 and 19). The increase in other capital surplus is due to the gains on the sales of treasury stocks.

²⁾ The decreases in paid-in capital in excess of par value are stock issuance costs for stock dividends and conversion of convertible bonds (See Notes 12 and 19)

³⁾ The above amount of gain on business combination is due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998.

21. Retained Earnings

Retained earnings as of December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Legal reserves	₩ 545,740	₩ 413,740
Reserves for business rationalization	40,760	40,760
Special reserves	1,827,700	960,700
Other reserves	2,492	7,158
Unappropriated retained earnings	410	5,117
	<u>₩ 2,417,102</u>	<u>₩ 1,427,475</u>

Continued:

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 an appropriate resolution of the Bank's stockholders.

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.

As of December 31, 2002 and 2001, other reserves comprise the following:

	In Millions of Won	
	2002	2001
Reserves for overseas investment losses	₩ -	₩ 5,417
Other reserves	2,492	1,741
	<u>₩ 2,492</u>	<u>₩ 7,158</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.

The Bank's income available for dividends is computed as follows:

	In Millions of Won	
	2002	2001
Retained earnings before appropriations	₩ 1,319,970	₩ 672,418
Transferred from prior years' reserves	5,417	8,483
Appropriations by law	(132,744)	(75,917)
Income available for dividends	<u>₩ 1,192,643</u>	<u>₩ 604,984</u>

Cash dividends and stock dividends on the statements of appropriations of retained earnings for the years ended December 31, 2002 and 2001 are calculated as follows:

	For the Year Ended December 31, 2002	
Cash dividends on common stocks		
Shares eligible to receive dividends ¹⁾	325,232,596 shares (par value of ₩5,000 per share)	
Dividend rate at par value	20% (₩1,000 per share)	
Dividends payable	325,232,596 shares x ₩1,000 = <u>₩ 325,232,596,000</u>	

¹⁾ The number of shares eligible to receive dividends is calculated by eliminating 3,026,089 shares of treasury stocks from 328,258,685 shares issued and outstanding.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

For the Year Ended December 31, 2002

Cash dividends on common stocks			
Shares eligible to receive dividends	299,665,914 shares (par value of ₩5,000 per share)		
Dividend rate at par value	2% (₩100 per share)		
Dividends payable	299,665,914 shares x ₩100 =	₩	29,966,591,400
Stock dividends on common stocks			
Shares eligible to receive dividends	299,665,914 shares (par value of ₩5,000 per share)		
Dividend rate at par value	6% (₩300 per share)		
Dividends payable	299,665,914 shares x ₩300 =		89,899,774,200
		₩	119,866,365,600

Dividend payout ratios and dividend yield ratios for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
Dividend payout ratio ¹⁾	Common stock:	24.82%	Common stock:	16.19%
Dividend yield ratio ²⁾		2.38%		0.80%

¹⁾ Dividends payable / Net income

²⁾ Dividends per share / Closing stock price per share at balance sheet dates

22. Capital Adjustments

As of December 31, 2002 and 2001, capital adjustments comprise the following:

	In Millions of Won	
	2002	2001
Treasury stocks	₩ (148,973)	₩ (1,363)
Unissued stock dividends	-	89,900
Unrealized gain on investment securities	275,222	189,058
Employee stock options (See Note 14)	-	26,021
	₩ 126,249	₩ 303,616

The movements in capital adjustments for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Increase	Decrease	Ending Balance
Treasury stocks	₩ (1,363)	₩ (149,704)	₩ (2,094)	₩ (148,973)
Unissued stock dividends	89,900	-	89,900	-
Unrealized gain on investment securities	189,058	202,064	115,900	275,222
Employee stock options (See Note 14)	26,021	-	26,021	-
	₩ 303,616	₩ (52,360)	₩ 229,727	₩ 126,249

The Bank, under the approval of the Board of Directors on July 26, 2002, established an Employee Stock Option Plan for the welfare of the employees and purchased 3,000,000 treasury stocks under the plan.

23. Other Non-Interest Income (Expenses)

Other non-interest income (expenses) for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Other non-interest income		
Realized gain on trading securities	₩ 127,017	₩ 156,605
Unrealized gain on trading securities	167,366	-
Gain on trust management	318,338	231,686
Reversal of allowance for losses on guarantees and acceptances	37,436	8,790
Others	19,565	689
	<u>₩ 669,722</u>	<u>₩ 397,770</u>
Other non-interest expenses		
Realized loss on trading securities	₩ 39,215	₩ 121,881
Unrealized loss on trading securities	-	4,140
Contributions to special funds	150,659	87,626
Loss on trust management	-	31,479
Others	168,161	61,900
	<u>₩ 358,035</u>	<u>₩ 307,026</u>

24. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Salaries and wages	₩ 1,121,336	₩ 541,869
Retirement benefits (Note 13)	100,198	112,366
Other employee benefits	253,464	360,549
Rent	49,792	21,409
Depreciation	311,487	103,334
Amortization	78,444	13,537
Taxes and dues	106,612	65,693
Advertising	88,029	36,469
Ordinary R&D	158,895	38,412
Fees and commissions	61,361	47,536
Others	221,808	117,370
	<u>₩ 2,551,426</u>	<u>₩ 1,458,544</u>

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

25. Non-Operating Income (Expenses)

Non-operating income (expenses) for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Non-operating income		
Gain on disposal of fixed assets	₩ 1,844	₩ 940
Rent income	3,404	2,463
Gain on investment in associates (Note 5)	-	351,226
Realized gain on investment securities	382,808	111,036
Reversal of impairment loss on investment equity securities	15,318	-
Reversal of impairment loss on investment debt securities	12,380	-
Unrealized gain on investment in special funds (Note 5)	2,022	85,519
Gain on sale of loans	15,858	1,317
Others	91,646	66,503
	<u>₩ 525,280</u>	<u>₩ 619,004</u>
Non-operating expenses		
Loss on disposal of fixed assets	8,132	4,314
Loss on investment in associates	273,620	-
Realized loss on investment securities	171,963	38,105
Impairment loss on investment equity securities	222,309	6,144
Impairment loss on investment debt securities	77,782	88,973
Loss on sale of loans	9,383	119,338
Retirement benefits	48,775	38,925
Others	85,463	76,500
	897,427	372,299
	<u>₩ (372,147)</u>	<u>₩ 246,705</u>

26. Income Tax Expenses

Income tax expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Income taxes payable	₩ 652,583	₩ 225,162
Deferred income taxes from temporary differences	(96,258)	97,109
Deferred income taxes from loss carry-forwards ¹⁾	28,929	-
Retained earnings adjustments	(1,927)	29,415
Income tax expenses	<u>₩ 583,327</u>	<u>₩ 351,686</u>

¹⁾ The above amounts of loss carry-forwards are from the prior period and all amounts are realized as of December 31, 2002.

Continued:

Adjustments of net income before income tax expenses to taxable income for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Adjustments to increase taxable income		
Permanent differences due to:		
Additional payment of income taxes	₩ 8,572	₩ 2,069
Amortization of goodwill	78,345	13,058
Employee stock option	24,808	-
Deemed interest	5,211	3,250
Interest expenses	3,144	2,421
Entertainment expenses	5,722	6,932
Others	7,615	7,568
	<u>133,417</u>	<u>35,298</u>
Temporary differences	<u>1,773,794</u>	<u>2,394,597</u>
	<u>₩ 1,907,211</u>	<u>₩ 2,429,895</u>
Adjustments to decrease taxable income		
Permanent differences due to:		
Dividend income	₩ 49,351	₩ 27,153
Corporation tax refund	4,682	22,478
Others	1,434	2,482
	<u>55,467</u>	<u>52,113</u>
Temporary differences	<u>1,601,468</u>	<u>2,695,523</u>
	<u>₩ 1,656,935</u>	<u>₩ 2,747,636</u>

The significant changes in accumulated temporary differences and deferred income taxes for the year ended December 31, 2002 comprise the following:

	In Millions of Won				
	Beginning Balance	Increase	Decrease	Ending Balance	Deferred Tax Assets (Liabilities)
Allowance for loan losses	₩ 671,717	₩ 314,081	₩ 671,717	₩ 314,081	₩ 93,282
Accrued interest	(478,123)	(350,798)	(478,123)	(350,798)	(104,187)
Unrealized loss on securities	1,875	238,142	(362,629)	602,646	178,986
Unrealized loss on derivatives	32,011	(99,147)	32,950	(100,086)	(29,725)
Present value discounts	87,972	28,001	87,972	28,001	8,316
Allowance for losses on					
guarantees and acceptances	43,823	5,278	43,823	5,278	1,568
Accrued retirement benefits	1,785	28,190	29,975	-	-
Reserve for overseas					
investment losses	(6,664)	-	(6,664)	-	-
Depreciation	-	820	-	820	243
Stock option compensation cost	26,021	10,116	26,021	10,116	3,004
Others	21,750	49,676	6,991	64,435	19,137
	<u>₩ 402,167</u>	<u>₩ 224,359</u>	<u>₩ 52,033</u>	<u>₩ 574,493</u>	<u>₩ 170,624</u>

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

Deferred income taxes adjusted by temporary differences in retained earnings for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
	Temporary Difference	Income Tax Effect	Temporary Difference	Income Tax Effect
Loans converted to equity securities	₩ -	₩ -	₩ 90,948	₩ 27,012
Unrealized gains (losses) on investment in associates	6,489	1,927	8,093	2,403
	<u>₩ 6,489</u>	<u>₩ 1,927</u>	<u>₩ 99,041</u>	<u>₩ 29,415</u>

The statutory income tax rates applicable to the Bank, including resident tax surcharges, are 29.7% and 30.8% for the years ended December 31, 2002 and 2001, respectively. However, the effective tax rates are 30.80% and 32.20% for the years ended December 31, 2002 and 2001, respectively.

Income tax expenses and effective tax rates for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
Income tax expenses	₩ 583,327		₩ 351,686	
Net income before income taxes	1,893,618		1,092,251	
Effective tax rate	<u>30.80%</u>		<u>32.20%</u>	

27. Earnings Per Share

Earnings per share ("EPS") for the years ended December 31, 2002 and 2001 are calculated as follows. As there are no extraordinary gains or losses for the years ended December 31, 2002 and 2001, ordinary income per share is not calculated:

	2002		2001	
Net income (in millions of Won)	₩ 1,310,291		₩ 740,565	
Weighted average number of common shares outstanding	317,786,872		199,825,909	
Earnings per share (in Won)	<u>₩ 4,123</u>		<u>₩ 3,706</u>	

Weighted average number of common shares outstanding for the year ended December 31, 2002 is calculated as follows:

	Number of Shares	Days Outstanding	Weighted Average Number of Shares
Number of common shares outstanding-beginning balance	317,677,416	365	317,677,416
Treasury common stock - beginning balance	(31,548)	365	(31,548)
Treasury common stock - acquisition during the current period	(3,036,089)	114 ¹⁾	(951,890)
Treasury common stock - disposal during the current period	41,548	178 ¹⁾	20,272
Converted portion of convertible bonds	10,581,269	37	1,072,622
Weighted average number of common shares outstanding before dilution			<u>317,786,872</u>

¹⁾ As acquisitions and dispositions of treasury stocks occurred frequently during the year ended December 31, 2002, those transactions are recorded in aggregates and weighted average number of common shares outstanding is utilized for the adjustments of the dates.

The convertible bonds converted into common share during the current period and the employee stock options are not potential common shares since convertible bonds are deemed converted as of the beginning of the period and the employee stock options are expected to be settled in cash. As of December 31, 2002, there are no potential common shares.

28. Assets and Liabilities Denominated in Foreign Currencies

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

	Total Balances		Major Denomination Currencies			
	Millions of Won	Thousands of US Dollars ¹⁾	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen	
Assets						
Cash	₩ 186,780	\$ 155,598	\$ 63,914	€ 15,676	¥ 7,450,032	
Due from banks	509,207	424,197	348,007	2,567	6,062,350	
Trading securities	11,842	9,865	9,865	-	-	
Investment securities	1,204,785	1,003,653	912,739	4,061	4,427,023	
Loans in foreign currencies	4,417,176	3,679,753	2,827,489	68,754	65,532,564	
Bills bought	756,300	630,040	588,877	25,336	840,286	
Advances for customers	2,223	1,852	1,852	-	-	
Call loans	248,857	207,312	202,700	4,000	50,000	
Liabilities						
Deposits	1,083,648	902,738	654,567	12,012	17,863,339	
Borrowings	3,408,530	2,839,494	2,407,624	58,893	46,007,284	
Due to BOK	37,493	31,234	31,234	-	-	
Call money	76,666	63,867	14,500	-	5,679,100	
Debentures	789,127	657,387	495,962	-	-	
Unsettled foreign exchange liabilities	20,895	17,407	12,772	939	138,208	

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

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

29. Related Party Transactions

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

Account	In Millions of Won					Transactions Relating to P/L
	Beginning Balance	Increase	Decrease	Ending Balance		
Kookmin Credit Card Co., Ltd.						
Loans	₩ 122,526	₩ -	₩ 1,743	₩ 120,783	₩ 17,150	
Other assets	1,907	876	-	2,783	9,528	
Deposits	4,687	7,369	-	12,056	(131)	
Borrowings	-	-	-	-	(1,355)	
Other liabilities	18,334	97,271	1,426	114,179	(12,388)	
Commissions income	-	-	-	-	153,271	
Commissions expenses	-	-	-	-	(220)	
Kookmin Venture Capital Co., Ltd.						
Loans	96,000	-	96,000	-	4,115	
Deposits	29,811	-	13,669	16,142	(1,025)	
Kookmin Data System Co., Ltd.						
Deposits	3,676	3,227	-	6,903	(187)	
Other liabilities	879	-	-	879	-	
Kookmin Futures Co., Ltd.						
Due from banks	2,092	-	1,713	379	5	
Deposits	10,646	8,214	-	18,860	(567)	
Other liabilities	620	-	-	620	-	
Kookmin Bank Luxembourg S.A.						
Due from banks	-	48,337	-	48,337	148	
Loans	218,807	77,168	156,273	139,702	4,789	
Other assets	-	815	-	815	3,131	
Borrowings	-	24,008	-	24,008	(80)	
Other liabilities	10,058	1,174	155	11,077	(922)	
Kookmin Bank International (London) Ltd.						
Due from banks	-	24,490	-	24,490	70	
Loans	146,911	40,408	1,257	186,062	3,576	
Other assets	-	-	-	-	359	
Borrowings	7,670	72,757	-	80,427	(308)	
Other liabilities	1,932	11,313	-	13,245	(2,691)	
Kookmin Finance H.K. Ltd.						
Due from banks	2,030	4,288	-	6,318	22	
Loans	182,052	1,200	7,402	175,850	4,721	
Borrowings	-	-	-	-	(161)	
Finance debentures	6,463	-	6,463	-	(232)	
Other liabilities	-	5,424	-	5,424	-	
Kookmin Investment Trust Mgt. Co., Ltd.						
Deposits	25,326	-	23,978	1,348	(802)	
KB Real Estate Trust Co., Ltd.						
Loans	40,000	-	10,000	30,000	3,005	
Deposits	241	104,513	-	104,754	(4)	
Guarantee deposits received	1,797	-	15	1,782	-	
Guarantees and acceptances	53	-	53	-	-	
KB Credit Information Co., Ltd.						
Deposits	7,838	1,658	-	9,496	(444)	
Guarantee deposits received	1,566	1,225	-	2,791	176	
Accounts payable	1,584	1,013	-	2,597	-	
Commissions expenses	-	-	-	-	(26,894)	

30. Transactions with Financial Institutions

The assets and liabilities related to transactions with financial institutions for the year ended December 31, 2002 are as follows:

		In Millions of Won			
Accounts	Description	The Bank of Korea	Other Banks	Other Financial Institutions	Total
Cash and due from banks	Due from banks in Won	₩ 1,340,482	₩ 41,584	₩ 140,000	₩ 1,522,066
	Due from banks in foreign currencies	25,677	478,466	5,064	509,207
		1,366,159	520,050	145,064	2,031,273
Loans	Loans in Won	-	20,941	727,747	748,688
	Loans in foreign currencies	-	1,187,649	-	1,187,649
	Call loans	-	371,744	-	371,744
	Privately placed debentures	-	-	60,683	60,683
		-	1,580,334	788,430	2,368,764
Deposits	Deposits in Won	-	1,087,401	2,478,252	3,565,653
	Deposits in foreign currencies	-	-	-	-
		-	1,087,401	2,478,252	3,565,653
Borrowings	Borrowings in Won	671,854	324,913	9,192	1,005,959
	Borrowings in foreign currencies	-	2,404,110	23,092	2,427,202
	Others	37,493	106,866	799,100	943,459
		709,347	2,835,889	831,384	4,376,620
Debentures	Debentures in Won	-	336,500	334,900	671,400
	Debentures in foreign currencies	-	789,127	-	789,127
		₩ -	₩ 1,125,627	₩ 334,900	₩ 1,460,527

31. Interest Bearing Assets and Liabilities

Assets and liabilities bearing interest income and interest expenses for the year ended December 31, 2002 are as follows:

		In Millions of Won		
Accounts	Average Balance	Interest Income	Average Yield (%)	
Due from banks	₩ 1,295,312	₩ 51,580	3.98	
Trading securities	1,684,790	95,576	5.67	
Investment securities	20,028,067	1,488,517	7.43	
Loans	117,775,057	9,251,849	7.86	
	₩ 140,783,226	₩ 10,887,522		
Accounts	Average Balance	Interest Income	Average Yield (%)	
Deposits	₩ 119,741,360	₩ 4,770,967	3.98	
Borrowings	10,412,792	415,938	3.99	
Debentures	12,154,162	830,219	6.83	
	₩ 142,308,314	₩ 6,017,124		

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

32. Operations of the Trust Accounts

Assets and liabilities of the trust accounts as of December 31, 2002 are classified as principal or dividend guarantee money trusts, performance money trusts, and property trusts as follows:

	In Millions of Won			
	Guarantee Money Trusts	Performance Money Trusts	Property Trusts	Total
Securities	₩ 3,795,316	₩ 11,030,654	₩ 175,049	₩ 15,001,019
Loans	168,740	406,672	-	575,412
Receivables	-	-	26,669,409	26,669,409
Due from banking accounts	102,570	340,379	14,992	457,941
Present value discounts	(1,745)	(26)	-	(1,771)
Allowance for loan losses	(94,830)	(95,587)	-	(190,417)
Other assets	87,046	238,312	573	325,931
Total assets	<u>₩ 4,057,097</u>	<u>₩ 11,920,404</u>	<u>₩ 26,860,023</u>	<u>₩ 42,837,524</u>
Trusts	₩ 3,787,286	₩ 11,568,999	₩ 26,852,684	₩ 42,208,969
Borrowings	37,882	-	-	37,882
Reserves for future losses	45,755	-	-	45,755
Other liabilities	186,174	351,405	7,339	544,918
Total liabilities	<u>₩ 4,057,097</u>	<u>₩ 11,920,404</u>	<u>₩ 26,860,023</u>	<u>₩ 42,837,524</u>

The Bank is liable as of December 31, 2002 for the following portion of the difference between the book value and fair value of principal or dividend guarantee money trusts:

	In Millions of Won		
	Book Value	Fair Value	Liable Amount
Principal guarantee money trusts	₩ 3,957,584	₩ 3,971,814	₩ -
Principal and dividend guarantee money trusts	99,513	99,573	-
	<u>₩ 4,057,097</u>	<u>₩ 4,071,387</u>	<u>₩ -</u>

The results of operations of the money trust accounts, from the Bank's management accounting point of view, for the year ended December 31, 2002 are as follows:

Trust Account Related Income		Trust Account Related Expenses	
		In Millions of Won	
Gain on trust management	₩ 300,686	Interest expense on borrowings from trust accounts	₩ 24,240
Early withdrawal penalties	288	Loss on trust management	-
Interest income on loans to trust accounts	5,732		
	<u>₩ 306,706</u>		<u>₩ 24,240</u>

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

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

34. Statement of Cash Flows

Cash and cash equivalents as of December 31, 2002 and 2001 as presented in the statements of cash flows comprise the following:

	2002	2001
	In Millions of Won	
Cash on hand	₩ 2,392,346	₩ 2,553,258
Cash in foreign currencies	186,780	147,313
Due from banks in Won	1,532,179	4,656,228
Due from banks in foreign currencies	509,207	175,693
	4,620,512	7,532,492
Restricted deposits	1,519,931	4,359,176
	₩ 3,100,581	₩ 3,173,316

Major transactions that do not involve cash inflows and cash outflows for the years ended December 31, 2002 and 2001 are presented as follows:

	2002	2001
	In Millions of Won	
Unrealized gains on investment securities	₩ 86,164	₩ 65,717
Conversion of convertible bonds	234,100	31,864
Stock dividends	89,900	-
Adjustments in assets and liabilities due to the equity method	4,562	68,184
Write-offs of loans	1,527,311	1,093,470
Loan restructuring	122,043	174,824
Sale of non-performing loans	65,174	368,868
Conversion of loans to equity securities	109,931	-
Retained earnings appropriation for dividends	325,233	119,867
Business combination with H&CB	-	68,448,066
Extinguishments of preferred stock	-	200,000

35. Business Segments

The Bank is organized into five major business segments: retail banking, corporate banking, capital markets activities, credit card operations, and others. 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.

Continued:

Notes to Non-Consolidated Financial Statements

December 31, 2002 and 2001

The following table shows the distribution of the Bank's operations by business segment as of and for the year ended December 31, 2002

In Millions of Won

	Retail Banking	Corporate Banking	Capital Markets Activities	Credit Card Operations	Others	Total
Loans	₩73,275,031	₩42,569,461	₩ 5,332,467	₩ 5,464,316	₩ 89,286	₩126,730,561
Securities	-	-	30,940,750	-	-	30,940,750
Fixed assets	1,905,980	417,194	153,393	291,634	324,415	3,092,616
Other assets	3,153,700	166,650	2,929,074	116,495	4,368,995	10,734,914
Total assets	<u>₩78,334,711</u>	<u>₩43,153,305</u>	<u>₩39,355,684</u>	<u>₩ 5,872,445</u>	<u>₩ 4,782,696</u>	<u>₩171,498,841</u>
Operating revenue	<u>₩ 5,503,719</u>	<u>₩ 2,976,862</u>	<u>₩ 4,836,692</u>	<u>₩ 1,188,435</u>	<u>₩ 1,078,793</u>	<u>₩ 15,584,501</u>

The Bank principally operates in Korea. Secondary segments are geographically oriented and are segregated into two segments: domestic and overseas operations. The following table shows the distribution of the Bank's operations by geographical market as of and for the year ended December 31, 2002:

In Millions of Won

	Domestic	Overseas	Total
Loans	₩126,101,520	₩ 629,041	₩126,730,561
Securities	30,866,435	74,315	30,940,750
Fixed assets	3,089,528	3,088	3,092,616
Other assets	10,670,487	64,427	10,734,914
Total assets	<u>₩170,727,970</u>	<u>₩ 770,871</u>	<u>₩171,498,841</u>
Operating revenue	<u>₩ 15,516,161</u>	<u>₩ 68,340</u>	<u>₩ 15,584,501</u>

36. Values Added Calculation

Major accounts included in general and administrative expenses to measure values added for the years ended December 31, 2002 and 2001 are as follows:

In Millions of Won

	2002	2001
Salaries and wages	₩ 1,121,336	₩ 541,869
Retirement benefits	100,198	112,366
Other employee benefits	253,464	360,549
Rent	49,792	21,409
Depreciation	311,487	103,334
Amortization	78,444	13,537
Taxes and dues	106,612	65,693
	<u>₩ 2,021,333</u>	<u>₩ 1,218,757</u>

37. Reclassification of prior year financial statement presentation

Certain accounts of financial statements as of and for the year ended December 31, 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

Balance Sheets (Trust Accounts)

As of December 31, 2002 and 2001

	In Millions of Won	
	2002	2001
Assets		
Cash and deposits	₩ 236	₩ 4,801
Securities (Note 4)	15,001,019	18,572,571
Loans (Note 5)	575,412	1,117,817
Call loans	-	65,000
Trusted money receivables	26,669,409	12,549,910
Real & personal property	175	40,299
Other assets	325,520	490,758
Due from banking accounts	457,941	786,558
Present value discounts	(1,771)	(14,549)
Allowances for possible loan losses (Note 6)	(190,417)	(374,577)
Total Assets	₩ 42,837,524	₩ 33,238,588
Liabilities		
Money trusts (Note 8)	₩ 15,356,285	₩ 19,739,710
Property trusts (Note 8)	26,852,684	12,559,922
Borrowings from banking accounts	37,882	267,334
Other liabilities	544,918	635,873
Reserves for future trust losses	45,755	35,749
Total Liabilities	₩ 42,837,524	₩ 33,238,588

Income Statements (Trust Accounts)

For the years ended December 31, 2002 and 2001

In Millions of Won

	2002	2001
Revenue		
Interest and dividend income :		
Interest and dividends on securities	₩ 1,057,767	₩ 1,364,216
Interest on loans	76,479	225,976
Interest on call loans	1,532	8,769
Interest on bonds purchased under resale agreements	1,162	-
Interest on trusted money receivables	1,169,135	501,518
Interest on due from banking account	24,240	31,090
Other interest income	5	27,855
	2,330,320	2,159,424
Gains on derivatives	46,272	35,161
Gains on real & personal property	1,537	2,710
Gains on securities	102,308	227,031
Commissions income	2,452	4,223
Other revenues	12,387	63,538
Reversal of allowances for loan losses	154,510	105,799
Reversal of reserves for future trust losses	6,417	1,705
	2,656,203	2,599,591
Expense		
Interest on borrowings	5,733	37,260
Fees and commission	2,499	20,045
Losses on derivatives	66,271	24,537
Losses on disposal of real & personal property	-	14
Write-off	-	544
Losses on securities	193,863	132,890
Contribution to fund	4,992	6,389
Taxes	419	500
Trust fees to the Bank	300,686	355,161
Other expenses	8,783	84,168
Provision for future trust losses	16,423	16,305
Provision for possible loan losses	6,751	66,945
	606,420	744,758
Dividends of trust profits to beneficiaries (Note 8)	₩ 2,049,783	₩ 1,854,833

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

1. The trustee

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

The Bank merged with Korea Long Term Credit Bank on December 31, 1998 and with Daegu, Busan, Jeonnam Kookmin Mutual Savings & Finance Co., Ltd. on August 22, 1999. Also, in accordance with the decision of the Financial Supervisory Commission under the Act concerning the Structural Improvement of the Financial Industry, the Bank purchased certain assets, including the loans classified as normal or precautionary, and assumed most of the liabilities of Daedong Bank as of June 29, 1998. The Bank 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.

The Bank had its shares listed on the Korean Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. Also, the Bank's American Depositary Shares ("ADS") were listed on New York Stock Exchange on November 1, 2001.

The Bank's total assets and liabilities amount to ₩171,498,841 million and ₩161,449,445 million respectively and paid-in capital is ₩10,049,396 million as of December 31, 2002.

The Bank's trust accounts ("the Trust Accounts"), as the trustee acting as the legal fiduciary, manage and dispose of the entrusted rights of property for the benefit of the trustors.

Cash is entrusted for money trusts and cash is distributed to the trustees at trust maturity. There are specified money trust where the trustee specifically determines how the trust is to be managed and unspecified money trusts where the management is totally entrusted to the trustee. Property, including securities or other monetary receivables, are entrusted for property trusts and cash or property are distributed to the trustors according to the instructions of the trustor or beneficiary.

2. Summary of Significant Accounting Policies

Under the Trust Business Act, the Trust Accounts are managed separately from the banking accounts. The financial statements of the Bank's Trust Accounts are prepared in accordance with the Trust Business Act and Trust Accounting Principles for the Bank Managing Trust Business of the Republic of Korea. Therefore, there may be material differences from what would have been prepared under financial accounting principles generally accepted in the Republic of Korea. The significant accounting policies applied in the preparation of the accompanying financial statements of the Trust Accounts are summarized below.

Revenues and Expenses of Trust Accounts -

The Trust Accounts record the amount of the trust revenue less all expenses and trust fees as the dividends of trust profits to beneficiaries (including the guaranteed principal and minimum rate of return). The trust fees are recorded in the Bank's banking accounts as a part of other operating income. Trust profit whose principal or minimum dividend is guaranteed is calculated by contractual dividend rate. Trust profit whose principal is not guaranteed or only principal is guaranteed is calculated by performance yield rate. However, when sum of principal guaranteed trust asset to be transferred to beneficiary is less than principal at termination of the trust period, principal should be guaranteed and no trust profit should be recognized.

Interest Income Recognition -

Interest income on loans and securities from the Trust Accounts' fund operations is recognized on an accrual basis, while interest income on overdue or dishonored loans and securities, except for those secured with deposits or guaranteed by financial institutions, is recognized on a cash basis.

Continued:

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

Securities -

Acquisition costs are recorded at purchase cost added with related expenses. The valuation methods used for securities are as follows:

	Valuation Methods
Marketable stocks and beneficial certificates	Market value
Non-marketable stocks	Acquisition cost (adjusted to net asset value if the decline in value is significantly below cost and is determined as other than temporary)
Debt securities	Market value
Other securities	Market value

However, under the transition clause in the accounting and reporting guidelines prescribed by the trust regulatory authorities, the debt securities managed under the unspecified money trusts that were established before November 15, 1998 and suspended addition of new trust after July 1, 2000 are not recorded at market value. Instead, the loan classification criteria were applied to these securities and the related unrealized losses were charged to provision for possible loan losses. When market value does not exist or does not reflect fair value, securities are valued by Market Value Appraisal Committee, which is managed by the trust company.

Additionally, securities that are managed under specified money trusts or property trusts are recorded at cost.

Allowances for Possible Loan Losses -

The Trust Accounts apply its internal credit rating system, the Forward Looking Criteria ("FLC"), to corporate loans in order to classify the borrowers and to determine allowances for possible loan losses. Effective as of January 1, 2002, the classification of corporate borrowers changed from 10 credit risk categories (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) to 12 credit risk categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D). Credit risk classification under the FLC is based on a scaled valuation of financial and non-financial risks with additional consideration of the loan type, collateral and/or guarantees.

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

Credit Risk Classification	Credit Ratings before Changes	Credit Ratings safer Changes	Allowance Rates
Normal	AAA ~ B	AAA ~ B	0.5%
Precautionary	CCC	B-, CCC	2%
Sub-standard	CC	CC	20%
Doubtful	C	C	50%
Estimated loss	D	D	100%

However, the Trust Accounts do not apply FLC to small-sized corporate loans and consumer loans. Alternatively, the Trust Accounts classify such loans by considering the current financial status including delinquent number of days, bankruptcies and collateral value. During the current period, the rates for determining the allowances for small-sized corporate receivables and consumer loans were changed as follows:

Credit Risk Classification	Credit Ratings before Changes	Allowance Rates after Changes	
		Small-sized Corporate	Consumer
Normal ¹⁾	0.50%	0.50%	0.75%
Precautionary	2.00%	2.00%	8.00%
Sub-standard	20.00%	20.00%	20.00%
Doubtful	50.00%	50.00%	55.00%
Estimated loss	100.00%	100.00%	100.00%

¹⁾ "Normal" is applied only to dividend guaranteed trust

Continued:

Present Value Discounts -

Loans whose conditions became unfavorable due to work out, court receivership, court mediation, or debt restructuring agreements of parties concerned, are carried at present value in cases where the present value of the loans are significantly below the book value. The present value discount, which is the difference between the book value and the present value, is amortized using the effective interest method. When estimating the present value of the loans, the Bank generally uses the interest rate at the inception of the loans as the discount rate. For floating rate loans and maturity-extended fixed rate loans, the discount rate used is the prime rate at the date of loan restructuring plus the spread that was applicable to the borrower at loan origination date. The provision for possible loan losses on these restructured loans are based on the loan amounts net of related present value discounts.

Due from Banking Accounts -

The surplus funds that result from the Trust Accounts' fund operations are loaned to the Bank's banking accounts and are recorded as due from banking accounts. Interest on loans to banking account is determined by applying call rate, announced by The Bank of Korea, to outstanding daily balance.

Reserve for Future Trust Losses and Subsidies from Banking Accounts -

Under the Trust Business Act, the Trust Accounts provide more than 25% of the trust fees as reserve for future trust losses up to 5% of invested capital for each type of money trusts with guarantees of principal or a minimum rate of return. When reserve for future losses are used to compensate principal or minimum rate of return, reversal of reserve for future trust losses are recorded and when there is excessive reserve for future trust losses, excessive reserves are transferred to trust fees. Provision for reserve and reversal of reserves for the period ended December 31, 2002 are ₩16,423 million and ₩6,417 million, respectively.

In cases where unspecified money trusts experience losses in excess of the guaranteed principal or a minimum rate of return, the losses are appropriated from reserve for future trust losses and trust fees. If losses are incurred in excess of the sum of reserve for future trust losses and trust fees, the Trust Accounts are provided the deficient amounts from the banking accounts. The banking accounts for this as loss on operating the Trust Accounts in other operating expenses and Trust Accounts account for this as subsidies from the banking accounts. The Trust Accounts recorded ₩0 and ₩31,479 million of subsidies from banking accounts for the year ended December 31, 2002 and 2001, respectively.

Derivatives Instrument -

The Trust Accounts trade KOSPI200 index futures and government bond futures for trading purposes. The Trust Accounts record gross gain/loss arising from each futures transaction. Unrealized gain/loss from the futures contract as of balance sheet date is recorded as gain/loss on derivatives.

Trust Fees -

The Bank's banking accounts receive trust management fees from the Trust Accounts which consist of basic fees of 0.5% to 2.0% of invested capital, contingent fees and special fees. This amount is provided from the trust assets on day of trust closing or termination and expensed as trust fees.

Performance Yield and Standard Price -

Performance yield and standard price calculated by Trust Business Act are as follows:

(1) Performance yield

Performance yield is standard compound yield rate less the provision rate for provision for possible loan losses and the trust management fee rate. Performance yield is the average of yields during the period of calculation of trust gain.

Standard compound yield rate is the sum of fund trust asset multiplied by its weighted average earnings rate divided by total trust assets. The gains and losses on disposal of securities and other fees are reflected in the calculation of standard compound yield rate.

Continued:

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

Daily gains and losses on disposal of securities and other fees are recognized over a one-month period from the date of occurrence. However, weekly gains and losses on redemption or valuation of beneficial certificates are reflected in the following one-week's calculation of standard compound yield rate.

(2) Standard Price

The standard price is calculated per 1,000 units and is total asset less total liability divided by total number of beneficial certificate units.

3. Summary of Trust Accounts

As of December 31, 2002, condensed balance sheet is as follows:

In Millions of Won

	Principal or Dividends Guaranteed	Performance	Property	Total
Securities	₩ 3,795,316	₩ 11,030,654	₩ 175,049	₩ 15,001,019
Loans	168,740	406,672	-	575,412
Monetary receivables	-	-	26,669,409	26,669,409
Due from banking account	102,570	340,379	14,992	457,941
Present value discounts	(1,745)	(26)	-	(1,771)
Allowance for possible loan loss	(94,830)	(95,587)	-	(190,417)
Other assets	87,046	238,312	573	325,931
Total assets	<u>₩ 4,057,097</u>	<u>₩ 11,920,404</u>	<u>₩ 26,860,023</u>	<u>₩ 42,837,524</u>
Trust	₩ 3,787,286	₩ 11,568,999	₩ 26,852,684	₩ 42,208,969
Reserves for future trust losses	45,755	-	-	45,755
Other liabilities	224,056	351,405	7,339	582,800
Total liabilities	<u>₩ 4,057,097</u>	<u>₩ 11,920,404</u>	<u>₩ 26,860,023</u>	<u>₩ 42,837,524</u>

As of December 31, 2001, condensed balance sheet is as follows:

In Millions of Won

	Principal or Dividends Guaranteed	Performance	Property	Total
Securities	₩ 5,601,949	₩ 12,960,622	₩ 10,000	₩ 18,572,571
Loans	268,013	849,804	-	1,117,817
Monetary receivables	-	-	12,549,910	12,549,910
Due from banking account	201,349	574,897	10,312	786,558
Present value discounts	(11,496)	(3,053)	-	(14,549)
Allowance for possible loan loss	(240,684)	(133,893)	-	(374,577)
Other assets	162,474	418,296	20,088	600,858
Total assets	<u>₩ 5,981,605</u>	<u>₩ 14,666,673</u>	<u>₩ 12,590,310</u>	<u>₩ 33,238,588</u>
Trust	₩ 5,510,730	₩ 14,228,979	₩ 12,559,923	₩ 32,299,632
Reserves for future trust losses	27,054	8,695	-	35,749
Other liabilities	443,821	428,999	30,387	903,207
Total liabilities	<u>₩ 5,981,605</u>	<u>₩ 14,666,673</u>	<u>₩ 12,590,310</u>	<u>₩ 33,238,588</u>

Continued:

Condensed income statement for the year ended December 31, 2002 is as follows:

In Millions of Won

	Principal or Dividends Guaranteed	Performance	Property	Total
Interest income	₩ 323,412	₩ 813,505	₩ 1,169,162	₩ 2,306,079
Gain on derivatives	26,745	19,527	-	46,272
Gain on securities	37,017	64,190	1,101	102,308
Interest on due from banking account	6,560	16,908	772	24,240
Subsidies from the bank	-	-	-	-
Reversal of allowance for possible loan losses	113,664	40,846	-	154,510
Other income	6,047	16,243	504	22,794
Total revenues	₩ 513,445	₩ 971,219	₩ 1,171,539	₩ 2,656,203
Dividend of trust profits to beneficiaries	₩ 219,884	₩ 659,947	₩ 1,169,952	₩ 2,049,783
Loss on derivatives	40,918	25,353	-	66,271
Loss on securities	100,693	92,824	346	193,863
Trust fees	115,497	183,994	1,195	300,686
Provision for allowance for possible loan losses	2,913	3,838	-	6,751
Other expenses	33,540	5,263	46	38,849
Total expenses	₩ 513,445	₩ 971,219	₩ 1,171,539	₩ 2,656,203

Condensed income statement for the year ended December 31, 2001 is as follows:

In Millions of Won

	Principal or Dividends Guaranteed	Performance	Property	Total
Interest income	₩ 407,969	₩ 1,215,209	₩ 505,156	₩ 2,128,334
Gain on derivatives	19,963	15,198	-	35,161
Gain on securities	67,788	159,243	-	227,031
Interest on due from banking account	7,811	23,175	104	31,090
Subsidies from the bank	31,479	-	-	31,479
Reversal of allowance for possible loan losses	43,894	61,905	-	105,799
Other income	16,067	24,575	55	40,697
Total revenues	₩ 594,971	₩ 1,499,305	₩ 505,315	₩ 2,599,591
Dividend of trust profits to beneficiaries	₩ 284,940	₩ 1,076,904	₩ 492,989	₩ 1,854,833
Loss on derivatives	9,858	14,679	-	24,537
Loss on securities	53,388	79,502	-	132,890
Trust fees	58,973	295,109	1,079	355,161
Provision for allowance for possible loan losses	53,423	13,522	-	66,945
Other expenses	134,389	19,589	11,247	165,225
Total expenses	₩ 594,971	₩ 1,499,305	₩ 505,315	₩ 2,599,591

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

4. Securities

Securities as of December 31, 2002 and 2001 comprise the following:

	Par Value	Acquisition Cost	Balance Sheet Amount	
			2002	2001
Equity securities	₩ -	₩ 971,392	₩ 924,514	₩ 890,151
Government and municipal bonds				
Treasury bonds	518,950	541,803	533,228	1,723,401
Public housing bonds	576,796	529,309	547,384	715,540
Grain supply bonds	36,000	39,914	38,761	70,078
Foreign exchange stabilization bonds	120,000	128,082	126,447	274,438
Municipal bonds	79,044	74,102	77,375	276,320
		<u>1,313,210</u>	<u>1,323,195</u>	<u>3,059,777</u>
Finance debentures				
Monetary stabilization bond	593,000	583,265	583,379	2,725,072
Other finance debentures	911,818	878,045	877,793	882,142
		<u>1,461,310</u>	<u>1,461,172</u>	<u>3,607,214</u>
Corporate bonds				
Special bonds	2,046,515	2,160,685	2,097,864	2,521,375
General corporate bonds	3,663,067	3,644,228	3,638,470	3,818,680
ABS	1,851,248	1,865,760	1,864,460	1,273,773
		<u>7,670,673</u>	<u>7,600,794</u>	<u>7,613,828</u>
Commercial papers	2,696,979	<u>2,696,979</u>	<u>2,696,979</u>	<u>2,632,667</u>
Other securities				
Beneficiary certificates(bonds)	-	168,030	172,554	263,974
Beneficiary certificates(stocks)	-	2,633	2,633	13,193
Others	-	71,860	71,925	121,352
		<u>242,523</u>	<u>247,112</u>	<u>398,519</u>
Securities denominated in foreign currencies	747,253	<u>747,253</u>	<u>747,253</u>	<u>370,415</u>
		<u>₩ 15,103,340</u>	<u>₩ 15,001,019</u>	<u>₩ 18,572,571</u>

Securities in Korean Won are recorded at fair value using the average of yield rate provided by Korea Investors Service, Inc. and Korea Bond Pricing & KMCC Co.

Continued:

Investment securities risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won	
	Amount	Ratio (%)
By country		
Korea	₩ 15,001,019	100.00
	₩ 15,001,019	100.00
By Type		
Fixed rate bonds	₩ 9,001,858	60.01
Floating rate bonds	2,087,822	13.92
Convertible bonds	20,733	0.14
Equity securities	924,514	6.16
Beneficiary certificates	175,187	1.17
others	2,790,905	18.60
	₩ 15,001,019	100.00
By Industry		
Government and municipalities	₩ 1,323,196	8.82
Financial institutions	9,410,633	62.73
Manufacturing	1,837,355	12.25
Others	2,429,835	16.20
	₩ 15,001,019	100.00

The maturities of securities, except equity securities, as of December 31, 2002 are summarized as follows:

	In Millions of Won						
	Government & municipal Bonds	Finance Debentures	Corporate bonds	Commercial papers	Other Securities	Securities in foreign currencies	Total
Due in 3 months or less	₩ 33,294	₩ 71,838	₩ 648,645	₩ 1,792,540	₩ 184,942	₩ -	₩ 2,731,259
Due in 6 months or less	34,905	310,459	732,984	476,094	53,160	-	1,607,602
Due in 1 year or less	144,092	555,188	1,349,461	420,000	-	250,582	2,719,323
Due in 2 year or less	397,806	402,448	2,125,338	-	9,010	189,650	3,124,252
Due in 3 year or less	340,078	50,507	1,586,854	-	-	177,521	2,154,960
Due in 4 year or less	272,212	-	821,277	-	-	129,500	1,222,989
Due in 5 year or less	98,039	-	141,236	-	-	-	239,275
Thereafter	2,769	70,732	194,999	8,345	-	-	276,845
	₩ 1,323,195	₩ 1,461,172	₩ 7,600,794	₩ 2,696,979	₩ 247,112	₩ 747,253	₩ 14,076,505

5. Loans

All of loans as of December 31, 2002 is Korea Won denominated loans generated in Korea.

Loan risk concentrations as of December 31, 2002 by industry are as follows:

	In Millions of Won	
	Amount	Ratio(%)
Corporate loans		
Financial institutions	₩ 1,339	0.23
Manufacturing	14,227	2.47
Services	14,893	2.59
Others	123,405	21.45
	153,864	26.74
Consumer loans	421,548	73.26
	₩ 575,412	100.00

Continued:

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

The maturities of loans as of December 31, 2002 are summarized as follows:

In Millions of Won

	Secured by real estate	Secured by beneficiary right	Secured by guarantee	Secured by deposit	Secured by note	Others	Total
Due in 3 months or less	₩ 61,284	₩ 59,829	₩ 24,618	₩ 57,007	₩ -	₩ 7,969	₩ 211,688
Due in 6 months or less	34,186	22,044	448	9,458	737	2,553	69,426
Due in 1 year or less	22,901	49,471	230	30,782	36	3,653	107,073
Due in 2 year or less	31,847	4,542	-	21,372	10,000	4	67,765
Due in 3 year or less	1,162	2,803	-	6,899	15,627	-	26,491
Due in 4 year or less	4,245	1,793	22	546	-	-	6,606
Due in 5 year or less	1,950	2,489	-	-	-	-	4,439
Thereafter	66,280	15,217	247	180	-	-	81,924
	₩ 223,855	₩ 158,188	₩ 25,565	₩ 126,244	₩ 27,381	₩ 14,179	₩ 575,412

As of December 31, 2002, credit risk classifications are as follows:

In Millions of Won

Secured by	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Real estate	₩ 150,517	₩ 14,662	₩ 55,821	₩ 39	₩ 2,816	₩ 223,855
Beneficiary right	158,184	-	-	3	1	158,188
Guarantee	1,441	28	23,959	4	133	25,565
Deposit	98,975	10,671	2,558	9,763	4,277	126,244
Note	25,861	29	1,121	-	370	27,381
Others	10,175	175	3,829	-	-	14,179
	₩ 445,153	₩ 25,565	₩ 87,288	₩ 9,809	₩ 7,597	₩ 575,412

6. Allowances for possible loan losses

As of December 31, 2002, allowances for possible loan losses comprise followings:

In Millions of Won

	Amount
Securities	
Equity securities	₩ 9,632
Corporate bonds	38,736
Commercial papers	34,608
	82,976
Loans	
Consumer loans	19,800
Corporate loans	17,931
	37,731
Suspense receivables	320
Others	
Securities sold under repurchase agreements	1,759
Excessive allowance	67,631
	69,390
	₩ 190,417

Continued:

Allowances for possible loan losses and the related securities and loans that need provision of allowances as of December 31, 2002 are as follows:

	In Millions of Won					
	Normal	Precautionary	Substandard	Doubtful	Estimated loss	Total
Securities						
Balance ¹⁾	₩ 6,413	₩ 6,831	₩ 42,804	₩ 59,201	₩ 13,264	₩ 128,513
Allowances	32	137	20,274	49,269	13,264	82,976
Provision rate (%)	0.50	2.00	47.36	83.22	100.00	64.57
Loans						
Balance	2,497	20,847	87,288	9,809	7,597	128,038
Allowances	19	1,709	22,230	6,176	7,597	37,731
Provision rate (%)	0.00	8.20	25.47	62.96	100.00	29.47
Suspense receivables						
Balance	14	-	344	158	165	681
Allowances	-	-	69	86	165	320
Provision rate (%)	0.50	-	20.06	54.43	100.00	46.99
Total						
Balance	₩ 8,924	₩ 27,678	₩ 130,436	₩ 69,168	₩ 21,026	₩ 257,232
Allowances	51	1,846	42,573	55,531	21,026	121,027
Provision rate (%)	0.06	6.67	32.64	80.28	100.00	47.05

¹⁾ Balance after deducting present value discount

For the years ended December 31, 2002, the allowances for possible loan losses changed as follows:

		In Millions of Won
		Amount
Beginning balance		₩ 374,577
Increase	Provision	6,751
	Others	27,899
		34,650
Decrease	Write off	64,300
	Reversal of allowance	154,510
		218,810
Ending balance		₩ 190,417

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

7. Derivatives

Derivatives of the Trust Accounts comprise of KOSPI 200 index futures and government bond futures and the purpose of the transaction is to gain profit from short-term fluctuations of underlying variable of the instruments.

As of December 31, 2002, outstanding derivatives are as follows:

	Contract amount	In Millions of Won Gain / Loss
Stock index related		
KOSPI200 index futures 0203	₩ 1,441	₩ 10
Interest related		
Government futures 203	64,032	(50)
	₩ 65,473	₩ 40

8. Revenues and expenses

Revenues and expenses of the Trust Accounts for the period ended December 31, 2002 are as follows:

	Revenue	Trust fees	Expense	In Millions of Won Dividends
Money trusts				
Unspecified money trust	₩ 185	₩ 176	₩ 3	₩ 6
Installment money trust	78,774	26,579	6,187	46,008
Household money trust	21,032	6,355	1,513	13,164
Development trust	131,132	59,353	71,770	9
Money trust for old age living pension	7,980	3,015	461	4,504
Corporate money trust	3,450	710	356	2,384
National stock trust	1,489	35	1,014	440
Money trust for individual pension	139,251	20,710	22,305	96,236
Household long-term money trust	200,205	31,200	16,406	152,599
Money trust for employee	56,995	9,795	3,248	43,952
New installment money trust	266,630	85,034	21,977	159,619
Retirement trust	15,142	1,381	5,868	7,893
Specified money trust	189,096	4,527	10,255	174,314
Unit type money trust	45,027	5,937	12,309	26,781
Open type money trust	86,515	11,788	54,302	20,425
Real estate investments trust	34,346	5,912	519	27,915
New money trust for individual pension	1,986	327	370	1,289
New money trust for old age living pension	200,400	25,874	75,231	99,295
New money trust for employee	782	144	67	571
Pension trust	4,246	639	1,180	2,427
	<u>1,484,663</u>	<u>299,491</u>	<u>305,341</u>	<u>879,831</u>
Property trusts				
Securities trust	1,688	(5)	393	1,300
Money receivables trust	1,169,852	1,200	-	1,168,652
	1,171,540	1,195	393	1,169,952
	<u>₩ 2,656,203</u>	<u>₩ 300,686</u>	<u>₩ 305,734</u>	<u>₩ 2,049,783</u>

9. Characteristics and dividend rate of trust

As of December 31, 2002 and 2001, the trust funds comprise 1,237,033 units and 1,458,130 units, respectively. The key terms and conditions of the trust funds are as follows:

In Millions of Won

	Period (years)	Type of Dividends	Average Dividends Rate (%)	Guarantee
Money trust				
Unspecified money trust	over 1.5 years	Contracted	0.99	principal and interest
Installment money trust	over 1.5 years	Performance	6.89	- ¹⁾
Household money trust	1.5 years	Performance	5.94	- ¹⁾
Development trust	2,3 year	Contracted	0.98	principal and interest
Money trust for old age living pension	over 5 years	Performance	5.75	principal
Corporate money trust	1.5 years	Performance	6.12	- ¹⁾
National stock trust	over 3 years	Performance	6.92	-
Money trust for individual pension	over 15 years	Performance	5.45	principal
Household long-term money trust	3-5 years	Performance	5.81	-
Money trust for employee	3-5 years	Performance	5.96	-
New installment money trust	over 1.5 years	Performance	5.69	-
Retirement trust	-	Performance	4.45	principal
Specified money trust	over 3 months	Performance	4.82	-
Unit type money trust	1 year	Performance	4.89	-
Open type money trust	1 year	Performance	1.90	-
Real estate investments trust	1-1.5 years	Performance	8.02	-
New money trust for individual pension	over 15 years	Performance	4.57	principal
New money trust for old age living pension	over 1 year	Performance	4.43	principal
New money trust for employee	3-5 years	Performance	4.81	-
Pension trust	over 15 years	Performance	4.32	principal
Property trust				
Securities trust	over 1 year	Performance	1.21	-
Money receivables trust	-	Performance	7.01	-

¹⁾ Trust funds contracted prior to April 30, 1996 are guaranteed of their principal amounts.

Notes to Financial Statements (Trust Accounts)

December 31, 2002 and 2001

10. Related party transactions

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

Balance sheet accounts		Income statement accounts	
Accounts	Amount	Accounts	Amount
In Millions of Won			
Banking accounts			
Due from banking account	₩ 457,941	Interest on due from banking account	₩ 24,240
Borrowings	37,882	Interest on borrowings	5,733
Accrued payable trust fees	68,188	Commission on termination of commodity	288
		Trust fees	300,686
Kookmin Credit Card Co.,Ltd.			
Corporate bonds	254,556	Interest income	10,722
Commercial papers	226,600	Unrealized loss on securities	602
		Loss on redemption of securities	744
		Loss on sale of securities	142
Kookmin Investment Trust Mgt. Co., Ltd.			
Commercial papers	30,000	Interest income	3,155
		Gain on sale of securities	19

For the year ended December 31, 2002 and 2001, ₩236,390 million and ₩259,536 million of trust assets have been transferred from performance trusts to principal or dividends guaranteed trusts.

11. Uncertainties due to Korean Economic Instability

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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 Bank may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Bank. Actual results may differ materially from management's current assessment.

Report of Independent Accountants (Consolidated)

SAMIL ACCOUNTING CORPORATION



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

To the Board of Directors and Shareholders of
Kookmin Bank

We have audited the accompanying consolidated balance sheets of Kookmin Bank ("the Bank") and its subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended, expressed in Korean Won. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Kookmin Credit Card Co., Ltd., Kookmin Futures Co., Ltd., Kookmin Bank Luxembourg S.A., and Kookmin Finance HK Ltd., whose statements represent 7.4% of total assets as of December 31, 2002 and 16.2% of total revenues for the year then ended. Also, we did not audit the financial statements of subsidiaries, Kookmin Credit Card Co., Ltd., Kookmin Leasing Co., Ltd., Kookmin Venture Capital Co., Ltd., Kookmin Futures Co., Ltd., Kookmin Investment Co., Ltd., Kookmin Bank Luxembourg S.A., Kookmin Finance HK Ltd., Kookmin Bank Finance Asia Ltd., and Kookmin Leasing & Finance (Hong Kong) Ltd., whose statements represent 6.9% of total assets as of December 31, 2001 and 18.1% of total revenues for the year then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Kookmin Bank and its subsidiaries as of December 31, 2002 and 2001, and the results of their operations, the changes in their shareholders' equity and their cash flows for the years then ended in conformity with financial accounting standards for consolidated financial statements generally accepted in the Republic of Korea.

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

As discussed in Note 32 to the consolidated financial statements, the Bank completed the legal consolidation with H&CB as of October 31, 2001. Despite the legal form of consolidation, the business combination was accounted for as an acquisition with the Bank as acquirer of H&CB's total assets of ₩67,742,958 million and liabilities of ₩64,381,185 million. The Bank's registration statement with the Securities and Exchange Commission of the United States of America was declared effective on September 10, 2001, and the new shares of the Bank are listed on New York Stock Exchange as American Depositary Shares ("ADS") since November 1, 2001.

As discussed in Note 2 to the consolidated financial statements, during the current period, the rates for determining allowances for consumer loans and credit cards loans were changed, in preparation for the increasing risk of loan losses due to the increase of consumer loans and credit cards, as follows.

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

Report of Independent Accountants (Consolidated)

As a result of the changed allowance rates, for the year ended December 31, 2002, the Bank provided additional allowances of ₩274,673 million for consumer loans and ₩87,035 million for credit cards loans, resulting in a decrease of ₩361,708 million in net income before income tax expenses.

Kookmin Credit Card, a subsidiary of the Bank, had been providing for loan losses under the Regulation on Supervision of Credit-Specialized Financial Business in prior years. However, from the current period, to better provide for increased risks against losses on credit card receivables, Kookmin Credit Card revised its provision policy based on the historical loan loss rates and expectations on future redemption amounts. Due to this change, for the year ended December 31, 2002, Kookmin Credit Card provided additional allowances of ₩397,158 million resulting in a decrease of ₩397,158 million in net income before income taxes.

As discussed in Note 1 and 18 to the consolidated financial statements, the Bank sold 65.43% of its 85.43% investment in Alpha Capital Corp. (Jooeun Leasing Co., Ltd. until prior period) and ₩172,024 million of its loans to Sun Capital Inc. for ₩145,000 million on August 30, 2002. The Bank also sold an additional 5.03% of its investment in Alpha Capital Corp. to Sun Capital Inc. for ₩900 million on October 28, 2002.

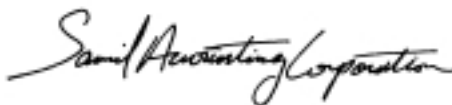
As discussed in Note 18 to the consolidated financial statements, the Bank sold its 87.00% ownership of Kookmin Investment Trust Management Co., Ltd. and 88.66% ownership of Kookmin Leasing Co., Ltd. to Morgan Stanley Private Equity, the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds, and Sun Capital Inc. on May 29, 2002 and December 27, 2002, respectively.

As a result of the changes in the scope of the subsidiaries of the Bank, assets of ₩788,924 million and liabilities of ₩615,097 million which were included in the consolidated financial statements as of December 31, 2001, were excluded from the consolidated financial statements as of December 31, 2002.

As discussed in Note 1 to the consolidated financial statements, Kookmin Venture Capital Co., Ltd. merged with Frontier Investment Co., Ltd. and Kookmin Investment Co., Ltd. on December 31, 2001 and June 27, 2002, respectively, to avoid duplicate investments. Kookmin Venture Capital Co., Ltd., Frontier Investment Co., Ltd., and Kookmin Investment Co., Ltd. had been subsidiaries of the Bank as of December 31, 2001.

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

Seoul, Korea
February 14, 2003



This report is effective as of February 14, 2003, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Samil Accounting Corporation is the Korean member firm of PricewaterhouseCoopers. PricewaterhouseCoopers refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Consolidated Balance Sheets

December 31, 2002 and 2001

	In Millions of Korean Won	
	2002	2001
Assets		
Cash and due from banks (Note 3)	₩ 4,790,636	₩ 7,842,446
Trading securities (Note 4)	9,273,445	11,634,338
Investment securities (Note 5)	27,588,861	26,653,008
Loans (Notes 6 and 7)	135,143,612	116,340,721
Fixed assets (Note 8)	3,360,158	3,291,295
Other assets (Note 9)	6,969,562	6,836,998
Total Assets	₩ 187,126,274	₩ 172,598,806
Liabilities and Shareholders' Equity:		
Deposits (Note 10)	₩ 126,890,960	₩ 120,448,949
Borrowings (Note 11)	15,473,094	17,072,682
Debentures (Note 12)	23,450,346	13,861,215
Other liabilities (Note 15)	10,956,773	11,939,004
Total Liabilities	₩ 176,771,173	₩ 163,321,850
Commitments and Contingencies (Note 18)		
Common stock, par value: ₩5,000 authorized: 1,000 million shares, issued and outstanding : 328,258,685 shares (Notes 1 and 19)	1,641,293	1,498,487
Capital surplus (Note 20)	5,968,401	5,745,002
Retained earnings (Note 21)	2,462,235	1,519,064
Capital adjustments (Note 22)	30,817	205,274
Minority interest in consolidated subsidiaries (Note 23)	252,355	309,129
Total Shareholders' Equity	₩ 10,355,101	₩ 9,276,956
Total Liabilities and Shareholders' Equity	₩ 187,126,274	₩ 172,598,806

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

Consolidated Income Statements

For the years ended December 31, 2002 and 2001

In Millions of Korean Won except for share amounts

	2002	2001
Interest income:		
Interest on due from banks	₩ 56,412	₩ 91,986
Interest on trading securities	369,631	379,593
Interest on investment securities	2,059,765	1,864,045
Interest on loans	10,472,306	5,824,121
Other interest income	130,323	144,362
	<u>13,088,437</u>	<u>8,304,107</u>
Interest expenses:		
Interest on deposits	4,982,936	3,783,808
Interest on borrowings	735,982	703,912
Interest on debentures	1,236,299	947,119
Other interest expenses	52,738	66,778
	<u>7,007,955</u>	<u>5,501,617</u>
Net interest income	6,080,482	2,802,490
Provision for loan losses (Note 7)	3,196,161	1,414,178
Net interest income after provision for loan losses	<u>2,884,321</u>	<u>1,388,312</u>
Non-interest income:		
Fees & commission income	2,571,278	2,157,852
Dividends on trading securities	1,234	495
Dividends on investment securities (Note 25)	13,575	7,138
Gain on foreign currency transactions	212,832	398,630
Gain on derivatives (Note 17)	2,378,593	2,314,740
Other (Note 24)	597,648	445,891
	<u>₩ 5,775,160</u>	<u>₩ 5,324,746</u>
Non-interest expenses:		
Fees & commission expenses	₩ 862,507	₩ 436,417
General and administrative expenses	2,977,475	1,764,850
Loss on foreign currency transactions	246,090	270,697
Loss on derivatives (Note 17)	2,193,185	2,336,897
Other (Note 24)	424,015	368,053
	<u>6,703,272</u>	<u>5,176,914</u>
Operating income	1,956,209	1,536,144
Non-operating loss, net (Note 26)	(137,777)	(179,839)
Extraordinary gain	-	161,527
Income before income tax expenses	<u>1,818,432</u>	<u>1,517,832</u>
Income tax expenses (Note 27)	<u>612,384</u>	<u>560,400</u>
Net income before consolidation adjustment	1,206,048	957,432
Minority interest in earnings of consolidated subsidiaries	65,260	(120,557)
Net income	<u>₩ 1,271,308</u>	<u>₩ 836,875</u>
Basic earnings per share (In Korean Won) (Note 28)	<u>₩ 4,001</u>	<u>₩ 4,188</u>
Diluted earnings per share(In Korean Won) (Note 28)	<u>₩ 4,001</u>	<u>₩ 4,003</u>

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

Changes in Consolidated Shareholders' Equity

For the years ended December 31, 2002 and 2001

In Millions of Korean Won

	Capital	Capital surplus	Retained earning	Capital adjustments	Minority interest	Total
Balance, January 1, 2001	₩ 1,698,067	₩ 1,647,292	₩ 708,156	₩ (17,100)	₩ 215,251	₩ 4,251,666
Business combination	(219,445)	4,067,855	-	-	-	3,848,410
Conversion of overseas convertible bonds to stocks	19,865	15,069	-	-	-	34,934
Acquisition of equity securities of subsidiaries	-	14,336	-	-	-	14,336
Net income	-	-	836,875	-	-	836,875
Appropriations for dividends	-	-	(119,867)	89,900	-	(29,967)
Loss in excess of minority interest	-	-	32,427	-	-	32,427
Changes in treasury stock	-	450	-	39,673	-	40,123
Unrealized gain on investment securities	-	-	-	67,294	-	67,294
Stock options	-	-	-	25,507	-	25,507
Changes in minority interest	-	-	-	-	93,878	93,878
Others	-	-	61,473	-	-	61,473
Balance, December 31, 2001	<u>₩ 1,498,487</u>	<u>₩ 5,745,002</u>	<u>₩ 1,519,064</u>	<u>₩ 205,274</u>	<u>₩ 309,129</u>	<u>₩ 9,276,956</u>
Balance, January 1, 2002	₩ 1,498,487	₩ 5,745,002	₩ 1,519,064	₩ 205,274	₩ 309,129	₩ 9,276,956
Conversion of overseas convertible bonds to stocks	52,906	181,194	-	-	-	234,100
Changes in minority interest in Kookmin Card	-	42,610	(4,294)	-	14,965	53,281
Net income	-	-	1,271,308	-	-	1,271,308
Appropriations for dividends	-	-	(325,234)	-	(6,883)	(332,117)
Issuance of stock dividends	89,900	-	-	(89,900)	-	-
Loss in excess of minority interest	-	-	3,360	-	-	3,360
Changes in treasury stock	-	-	-	(147,610)	-	(147,610)
Unrealized gain on investment securities	-	-	-	87,330	34	87,364
Stock options	-	-	-	(25,624)	395	(25,229)
Changes in minority interest	-	-	-	-	(65,260)	(65,260)
Others	-	(405)	(1,969)	1,347	(25)	(1,052)
Balance, December 31, 2002	<u>₩ 1,641,293</u>	<u>₩ 5,968,401</u>	<u>₩ 2,462,235</u>	<u>₩ 30,817</u>	<u>₩ 252,355</u>	<u>₩ 10,355,101</u>

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

Consolidated Statements of Cash Flows

For the years ended December 31, 2002 and 2001

In Millions of Korean Won

	2002	2001
Cash Flows from Operating Activities:		
Net income	₩ 1,271,308	₩ 836,875
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized gain on trading securities, net	(94,540)	(49,350)
Unrealized gain on trading securities, net	(118,486)	14,430
Provision for loan losses	3,196,161	1,414,178
Gain on foreign currency transactions, net	33,258	(127,933)
Loss on derivative instruments, net	(185,408)	22,157
Retirement benefits	114,023	124,853
Depreciation and amortization	445,471	197,459
Gain on disposal of fixed assets, net	6,401	17,575
Realized gain on investment securities, net	(188,226)	(89,230)
Impairment loss on investment securities, net	348,697	117,665
Loss on sale of troubled loans, net	97,644	162,305
Minority interest in earnings of consolidated subsidiaries	(65,260)	120,557
Others, net	29,070	(374,235)
Changes in assets and liabilities resulting from operations:		
Accrued income	13,225	310,056
Prepaid expenses	(94,532)	(3,552)
Deferred tax assets	(40,229)	85,910
Other assets	(15,409)	(99,809)
Accrued expenses	(202,531)	(202,020)
Unearned income	(7,436)	(8,425)
Deferred tax liabilities	(29)	824
Withholding taxes	(55,480)	(50,306)
Other liabilities	69,148	36,397
Payment of retirement benefits	(24,034)	(655,644)
Increase in pension funds	(63,894)	(27,821)
Decrease in the National pension fund	69	26,519
Net cash provided by operating activities	₩ 4,468,981	₩ 1,799,435

Continued:

	In Millions of Korean Won	
	2002	2001
Cash Flows from Investing Activities:		
Decrease (increase) in due from banks	₩ 2,797,251	₩ (2,112,025)
Decrease (increase) in trading securities	2,507,440	(3,581,594)
Increase in investment securities	(959,556)	(1,376,433)
Increase in loans, net	(21,183,846)	(8,836,726)
Proceeds from disposal of fixed assets	17,749	26,531
Acquisition of fixed assets	(706,195)	(479,701)
Others, net	(54,197)	(1,315,097)
Net cash used in investing activities	<u>(17,581,354)</u>	<u>(17,675,045)</u>
Cash Flows from Financing Activities:		
Increase in deposits, net	6,442,197	11,503,007
Increase (decrease) in borrowings	(1,972,051)	4,000,529
Increase (decrease) in debentures	9,839,721	(2,880,627)
Others, net	<u>(1,441,623)</u>	<u>2,572,955</u>
Net cash provided by financing activities	<u>12,868,244</u>	<u>15,195,864</u>
Decrease in cash resulting from changes in the scope of consolidated subsidiaries	(18,143)	-
Net decrease in cash and cash equivalents	(262,272)	(679,746)
Cash and cash equivalents, beginning of year (Note 33)	3,469,520	4,149,266
Cash and cash equivalents, end of year (Note 33)	<u>₩ 3,207,248</u>	<u>₩ 3,469,520</u>

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

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

1. The Consolidated Company

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

The Bank -

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

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

The Bank had its shares listed on the Korea Stock Exchange since September 1994. As a result of the business combination with H&CB, the former shareholders of the Bank and H&CB received new common shares of the Bank on the basis of a pre-determined ratio. The new common shares of the Bank were relisted on the Korea Stock Exchange on November 9, 2001. The Bank's paid-in capital amounts to ₩1,641,293 million as of December 31, 2002. Also, as of December 31, 2002, 37,728,214 shares of the Bank are listed on the New York Stock Exchange as American Depositary Shares ("ADS") (See Note 19).

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 1,336 domestic branches and offices (including ATMs) and 3 overseas branches as of December 31, 2002.

Trust Accounts of the Bank -

According to the accounting and reporting guidelines by the banking regulatory authorities, the accompanying consolidated financial statements include trusts subject to guaranteed fixed rates of return or principal repayment. Total assets of consolidated and non-consolidated trusts of the Consolidated Company at December 31, 2002 and 2001 are as follows:

	In Millions of Won	
	2002	2001
Consolidated trusts	₩ 3,960,057	₩ 5,865,422
Non-consolidated trusts	38,248,912	26,434,210
	₩ 42,208,969	₩ 32,299,632

Continued:

Subsidiaries either consolidated or accounted for by the equity method -

The subsidiaries of the Bank, either consolidated or accounted for by the equity method as of December 31, 2002 and 2001, are summarized as follows:

Companies	Balance sheet date	2002		2001	
		Number of shares	Ownership (%)	Number of shares	Ownership (%)
Consolidated subsidiaries					
Kookmin Credit Card Co., Ltd.	December 31	54,365,028	74.27	54,365,028	74.27
Kookmin Data System Corp.	December 31	799,800	99.98	799,800	99.98
Kookmin Futures Co., Ltd.	March 31	3,999,200	99.98	3,999,200	99.98
Kookmin Investment Co., Ltd. ¹⁾	December 31	8,941,587	99.89	6,399,930	99.99
K.B. Luxembourg S.A.	December 31	70,000	100.00	70,000	100.00
Kookmin Finance Hong Kong Ltd.	December 31	2,000,000	100.00	2,000,000	100.00
K.B. Int'l Ltd.(London)	December 31	20,000,000	100.00	20,000,000	100.00
KB Investment Trust Mgt. Co., Ltd. ²⁾	March 31	6,134,040	80.00	6,134,040	80.00
KB Real Estate Trust Co., Ltd. ³⁾	December 31	15,999,930	99.99	15,999,930	99.99
KB Credit Information Co., Ltd. ⁴⁾	December 31	867,716	69.28	504,000	50.00
Kookmin Leasing Co., Ltd. ⁵⁾	March 31	-	-	36,541,400	88.66
Kookmin Venture Capital Co., Ltd. ¹⁾	December 31	-	-	8,855,024	94.11
Frontier Investment Corp. ¹⁾	December 31	-	-	4,599,965	99.99
Kookmin Finance Asia Ltd. (HK) ⁶⁾	December 31	-	-	2,000,000	100.00
Kookmin Leasing & Finance ⁷⁾	December 31	-	-	20,000,000	100.00
Alpha Capital Corp. ⁸⁾	March 31	-	-	16,960,000	85.43
Joeeun Industrial Co., Ltd. ⁹⁾	December 31	-	-	1,999,910	99.99
Kookmin Bank Investment Trust Mgt. Co., Ltd. ¹⁰⁾	December 31	-	-	1,999,910	99.99
Equity method investees					
ING Life Co., Ltd.	March 31	280,000	20.00	1,400,000	20.00
Korea Asset Investment Co., Ltd. ¹²⁾	December 31	1,005,000	49.79	1,005,000	49.79
Korea Mortgage Corp. ¹¹⁾	December 31	6,000,000	26.67	6,000,000	28.22
Jeio Co., Ltd. ¹²⁾	December 31	419,049	21.14	-	-
Joeeun Industrial Co., Ltd. ⁹⁾	December 31	1,999,910	99.99	-	-
Kookmin Finance Asia Ltd. (HK) ⁶⁾	December 31	2,000,000	100.00	-	-

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

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

³⁾ Joeeun Real Estate Trust Co., Ltd. was renamed KB Real Estate Trust Co., Ltd. as of September 16, 2002.

⁴⁾ Joeeun Credit Information Co., Ltd. merged with KB Credit Information Co., Ltd. as of May 2, 2002 and was renamed KB Credit Information Co., Ltd.

⁵⁾ The Bank sold Kookmin Leasing Co., Ltd. to Sun Capital Co., Ltd. and excluded it from the scope of consolidation.

⁶⁾ Kookmin Finance Asia Ltd. (HK) is in the process of liquidation and was excluded from the scope of consolidation as of December 31, 2002

⁷⁾ Kookmin Leasing & Finance, a subsidiary of Kookmin Leasing Co., Ltd. was excluded from the scope of consolidation due to the disposal of Kookmin Leasing Co., Ltd.

⁸⁾ The Bank sold the stocks of Alpha Capital Corp. in this fiscal year and excluded it from the scope of consolidation and applying the equity method due to a reduction to 14.97% in equity ownership.

⁹⁾ The dissolution of Joeeun Industrial Co., Ltd. was approved during the shareholders' meeting of the company on March 19, 2002.

¹⁰⁾ The Bank sold the stocks of Kookmin Bank Investment Trust Mgt. Co., Ltd. to Morgan Stanley Global Emerging Markets Inc. in this fiscal year and excluded it from the scope of consolidation and applying the equity method.

¹¹⁾ Korea Mortgage Corp. increased its capital as of December 21, 2002 but since the consolidated company did not participate, its equity rate decreased.

¹²⁾ Korea Asset Investment Co., Ltd. was invested by the Bank and Kookmin Investment Co., Ltd., a subsidiary of the Bank, and Jeio Co., Ltd. was invested by Kookmin Investment Co., Ltd., a subsidiary of the Bank.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Operations of the subsidiaries either consolidated or accounted for by the equity method -
Consolidated Subsidiaries -

	Location	Outstanding Capital (in Millions)		Major Business
Kookmin Credit Card Co., Ltd.	Korea	KRW	366,000	Credit card operations, consumer installment financing, factoring, payment guarantees
Kookmin Data System Corp.	Korea		8,000	Software services for the Bank and other companies
Kookmin Futures Co., Ltd.	Korea		20,000	Dealing and brokerage services for futures transactions
Kookmin Investment Co., Ltd.	Korea		44,759	Investing and financing small and medium-sized enterprises
Kookmin Bank Luxembourg S.A.	Luxembourg	EUR	17.5	Commercial banking business and foreign exchange operation
Kookmin Bank Int'l Ltd. (London)	U.K.	GBP	20	Commercial banking business and foreign exchange operation
Kookmin Finance HK Ltd.	Hong Kong	USD	20	Commercial banking business and foreign exchange operation
KB Investment Trust Mgt. Co., Ltd.	Korea	KRW	38,338	Providing security investment trust services and investment consulting services
KB Real Estate Trust Co., Ltd.	Korea		80,000	Development, management and brokerage services with regard to real estate and trust business of real estate
KB Credit Information Co., Ltd.	Korea		6,262	Delinquent loan collecting service and credit checking service and credit

Equity Method Investees -

	Location	Outstanding Capital (in Millions)		Major Business
NG Life Co., Ltd. ¹⁾	Korea	KRW	70,000	Insurance
Korea Asset Investment Co., Ltd.	Korea		10,093	Franchising, financing, consulting and information services with regard to real estate
Korea Mortgage Corp.	Korea		106,300	Purchase, issuance and sales of mortgage backed securities
Jeio co., Ltd.	Korea		2,095	Inspecting materials, manufacturing measuring instruments
Joeun Industrial Co., Ltd.	Korea		10,000	House construction, rent and management service with regard to real estate
Kookmin Finance Asia Ltd. (HK)	Hong Kong	USD	20	Commercial banking business and foreign exchange operation

¹⁾ The Consolidated Company applied the equity method based on the amended financial statements of ING Life Korea Co., Ltd. for additional ₩16,117 million of income taxes.

Continued:

Significant Financial Data -

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

	In Millions of Won			
	Total Assets	Shareholders' Equity	Operating Revenue	Net Income (Loss)
Banking accounts	₩ 171,498,841	₩ 10,049,397	₩ 15,587,361	₩ 1,310,291
Trust accounts	3,960,057	45,755	314,121	-
Kookmin Credit Card Co., Ltd.	13,381,369	918,227	3,134,576	(260,888)
Kookmin Data System Corp.	18,290	14,419	43,935	2,008
Kookmin Futures Co., Ltd.	39,315	25,097	13,323	2,581
Kookmin Investment Co., Ltd.	99,980	73,773	10,335	(33,883)
K.B. Luxembourg S.A ¹⁾	459,080	5,128	17,829	7,501
Kookmin Finance Hong Kong Ltd.	293,210	61,437	21,063	12,191
K.B. Int'l Ltd.(London)	344,265	47,739	10,648	742
KB Investment Trust Mgt. Co., Ltd.	63,073	57,335	33,953	16,479
KB Real Estate Trust Co., Ltd.	300,671	87,728	64,079	8,915
KB Credit Information Co., Ltd.	20,440	13,744	34,682	3,492
Elimination and equity pick-up	(3,352,317)	(1,044,678)	(422,308)	201,879
	₩ 187,126,274	₩ 10,355,101	₩ 18,863,597	₩ 1,271,308

¹⁾ Due to differences in accounting between the Bank and KB Luxembourg S. A., adjustments which resulted to a ₩21,626 million decrease in investment securities and ₩577 million increase in allowances for loan losses have been made. Those adjustments pertain mostly to periods before December 31, 2001.

2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Consolidated Company in the preparation of the accompanying consolidated financial statements are summarized below.

Basis of Consolidated Financial Statement Presentation -

The official accounting records of the Bank and its subsidiaries, except for foreign subsidiaries, are maintained in Korean Won in accordance with financial accounting standards and the relevant laws and regulations of the Republic of Korea. Such basis of accounting and presentation is not in conformity with International Accounting Standards, which, if applied, would give rise to material adjustments to the financial statements.

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. Some information attached to the Korean language financial statements, but not required for a fair presentation of the Bank's financial position, results of operations or cash flows, is not presented in the accompanying financial statements.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

The preparation of the consolidated financial statements in conformity with financial accounting standards requires management to make estimates and assumptions that affect amounts reported therein. Due to the inherent uncertainty involved in making estimates, actual results reported in future periods may differ from those estimates.

Accounting Policies of Consolidated Companies -

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

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

Principles of Consolidation -

The Bank records differences between the cost basis of investment accounts and the corresponding capital accounts of subsidiaries at the time of acquisition as goodwill.

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

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

All significant intercompany transactions and account balances among the consolidated company are eliminated in consolidation.

Recognition of Interest Income -

The Consolidated Company recognizes interest income on loans and debt securities on an accrual basis. However, interest income on delinquent and dishonored loans and debt securities, other than those subject to security deposits and guaranteed by financial institutions, is recognized on a cash basis.

Translation of Foreign Currency -

Assets and liabilities denominated in foreign currencies are translated into Korean Won at exchange rates announced by Seoul Money Brokerage Services, Ltd. at the balance sheet date. The resulting exchange gains or losses are reflected in other operating income or expenses.

The exchange rate used to translate foreign currency denominated assets and liabilities are ₩1,200.4 : US\$1, ₩1,925.02 : GBP1, ₩1,257.36 : EUR1 and ₩1,012.87 : JPY100 at December 31, 2002 and ₩1,326.1 : US\$1, ₩1,923.11 : GBP1, ₩1,172.60 : EUR1 and ₩1,009.4 : JPY100 at December 31, 2001, respectively.

Continued:

Loans -

Until November 30, 2002, the Consolidated Company regarded granting lines of credit under import usance letters of credit, as guarantees and acceptances outstanding (acceptances on letters of credit), and provided allowances only for the transactions classified as "sub-standard" or below according to the credit risk classifications. However, under the revised Enforcement Regulations on Supervision of Banking Business, effective on December 1, 2002, those transactions are regarded as loans in foreign currencies (domestic usance bills) and borrowings in foreign currencies and the Bank provided allowances for loan losses under the same criteria for regular loans. As a result, as of December 31, 2002, loans in foreign currencies and borrowings in foreign currencies have been both increased by ₩981,379 million, and allowances for guarantees and acceptances outstanding have been decreased by ₩11,568 million and allowances for loan losses have been increased by ₩18,866 million.

Allowances for Loan Losses -

The Bank applies its internal credit rating system, the Forward Looking Criteria ("FLC"), to corporate loans in order to classify the borrowers and to determine allowances for loan losses. Effective as of January 1, 2002, the classification of corporate borrowers changed from 10 credit risk categories (AAA, AA, A, BBB, BB, B, CCC, CC, C, D) to 12 credit risk categories (AAA, AA, A, BBB, BB, BB-, B, B-, CCC, CC, C, D). Credit risk classification under the FLC is based on a scaled valuation of financial and non-financial risks with additional consideration of the loan type, collateral and/or guarantees.

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

	Credit Ratings before Changes	Credit Ratings after Changes	Allowance Rates
Normal	AAA ~ B	AAA ~ B	0.5%
Precautionary	CCC	B-, CCC	2%
Sub-standard	CC	CC	20%
Doubtful	C	C	50%
Estimated loss	D	D	100%

However, the Bank does not apply the FLC to small-sized corporate loans, consumer loans, and credit cards. Alternatively, the bank classifies such loans by considering the current financial status including delinquent number of days, bankruptcies and collateral value. During the current period, the rates used for determining the allowances for small-sized corporate loans, consumer loans, and credit cards were changed as follows:

	Allowance Rates after Changes			
	Allowance Rates before Changes	Small-sized Corporate	Consumer	Credit Cards
Normal	0.50%	0.50%	0.75%	1.00%
Precautionary	2.00%	2.00%	8.00%	12.00%
Sub-standard	20.00%	20.00%	20.00%	20.00%
Doubtful	50.00%	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%	100.00%

As a result of the changed allowance rates for the year ended December 31, 2002, the Bank provided additional allowances of ₩274,673 million for consumer loans and ₩87,035 million for credit cards loans resulting in a decrease of ₩361,708 million in net income before income tax expenses.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Subsidiaries of the Bank recognize provision for loan losses based on a credit risk classification of loans and receivables in accordance with accounting standards for related subsidiaries' industry and relevant laws and regulations. The material difference between the provision for loan losses of a subsidiary and that applied by FLC of the Bank is accounted for as additional provision (See Note 1).

Allowances for Loan Losses -

Kookmin Credit Card, a subsidiary of the Bank, had been providing for loan losses under the Regulation on Supervision of Credit-Specialized Financial Business in prior years. However, from the current period, to better provide for increased risks against losses on credit card receivables, Kookmin Credit Card revised its provision policy based on the historical loan loss rates and expectations on future redemption amounts. Due to this change, for the year ended December 31, 2002, Kookmin Credit Card provided additional allowances of ₩397,158 million resulting in a decrease of ₩397,158 million in net income before income taxes.

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 Consolidated Company 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 as 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 provision for loan losses 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.

The Consolidated Company recorded ₩21,156 million and ₩28,868 million of present value discounts as of December 31, 2002 and 2001, respectively, on long-term deposits placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.), a subsidiary of the Bank sold in December 1999 (See Note 3). The receivables from the 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 associates 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 recorded at cost at acquisition, including incidental expenses, using the moving-average or specific identification method. The subsequent valuation methods used for the securities are summarized as follows:

	Valuation Method	Recognition of Unrealized Gains and Losses
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	Cost	N/A
Investment in associates	Equity	Net income, retained earnings, or capital adjustments per source of the gain or loss

If the fair value of the investment securities are significantly below the book value and the decrease in value is anticipated to be permanent, the Consolidated Company adjusts the investment securities to their fair value and recognizes impairment losses in non-operating expenses of the current period.

Continued:

Fixed Assets and Related Depreciation -

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

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

	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4 years
Equipment and vehicles	Declining balance method	4 years

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

The Consolidated Company recorded goodwill as a result of the merger with H&CB for the cost of the merger exceeding the fair value of the net assets acquired. Intangible assets including goodwill 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 amortization.

	Amortization Method	Estimated Useful Life
Goodwill	Straight-line method	9 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	7-30 years

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

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

Guarantees and Acceptances -

By applying the credit risk classification used for loans to the guarantees and acceptances, the Consolidated Company records an 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).

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Deferred Income Taxes -

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

Bonds under Repurchase/Resale Agreements -

Securities bought under resale agreements are recorded in loans as bonds purchased under resale agreements. Securities sold under repurchase agreements are recorded in borrowings as bonds sold under repurchase agreements.

Stock Options -

The Bank had applied the fair value method using an option-pricing model in measuring compensation cost until the prior period. However, starting from the current period, expecting a high probability of grant and exercise as stock appreciation rights, the Bank changed the measurement method to the intrinsic value method. As a result, previous amounts recorded in capital adjustments (stock options) have been reclassified into accrued expenses (See Note 14).

Derivatives Instruments -

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

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

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

National Housing Fund -

The Consolidated Company, as designated by the Korean Government under the Housing Construction Promotion Law, manages the sources and uses of funds of the National Housing Fund (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.

Gains and Losses on Trust Management -

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

Continued:

Translation of the 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 the purpose of presentation in the accompanying financial statements, the financial statements of the branches have been translated into Korean Won, using exchange rates published by Seoul Money Brokerage Services, Ltd. as of the balance sheet dates.

Statement of Cash Flows -

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

Consolidation Adjustment -

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

	In Millions of Won			
	Net Income (Loss)		Retained Earnings	
	2002	2001	2002	2001
Aggregate balances of each entity	₩ 1,069,429	₩ 1,323,716	₩ 2,956,039	₩ 1,706,921
Consolidation adjustments:				
Elimination of shareholdings	(893)	(1,470)	(250,693)	(44,307)
Minority interest in earnings or losses, net	65,260	(120,557)	(208,594)	31
Reversal of the equity method	267,419	(358,003)	(26,572)	(498,822)
Merger between subsidiaries	(81,502)	-	-	-
Disposal of subsidiaries	(59,077)	-	-	-
Elimination of provisions for loan losses for consolidated subsidiaries	(318)	(88,180)	918	214,232
Additional provisions for loan losses for consolidated subsidiaries	-	1,689	-	(29,516)
Elimination of gains and losses on derivatives transaction for consolidated subsidiaries	1,342	-	1,483	-
Change in foreign exchange rate	(3,286)	(7,743)	(8,291)	3,836
Reversal of trust reserve	10,006	-	-	-
Restoration of equity investments conversion	-	83,803	-	174,751
Other consolidation adjustments	2,928	3,620	(2,055)	(8,062)
	<u>201,879</u>	<u>(486,841)</u>	<u>(493,804)</u>	<u>(187,857)</u>
Balances in the consolidated financial statements	₩ <u>1,271,308</u>	₩ <u>836,875</u>	₩ <u>2,462,235</u>	₩ <u>1,519,064</u>

Application of the Statements of Korean Financial Accounting Standards -

The Korean Accounting Standards Board ("KASB") has published a series of Statements of Korean Financial Accounting Standards ("SKFAS"), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. SKFAS No. 2 through No. 9 become effective for the Bank on January 1, 2003, and the Bank plans to adopt these statements in its financial statements for the year ending December 31, 2003.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

3. Cash and Due from Banks

Cash and due from banks as of December 31, 2002 and 2001 are summarized as follows:

		In Millions of Won	
		2002	2001
Cash on hand			
Cash in Won		₩ 2,393,118	₩ 2,553,714
Cash in foreign currency		186,780	147,314
		<u>2,579,898</u>	<u>2,701,028</u>
Due from banks in Won			
The Bank of Korea	Reserve deposits	1,340,482	3,450,528
Banks	Time deposits	99,849	238,866
Other financial institutions	Cash management accounts	140,000	1,144,971
Others	Futures margin accounts and others	108,664	6,330
		<u>1,688,995</u>	<u>4,840,695</u>
	Present value discounts ¹⁾	(21,156)	(28,868)
		<u>1,667,839</u>	<u>4,811,827</u>
Due from banks in foreign currencies			
The Bank of Korea	Demand deposits	25,677	33,795
Domestic banks	Demand deposits	10,221	125,798
Foreign banks	Time deposits	220,763	146,565
Off-shore	Demand deposits	5,064	23,433
Others	Other deposits	281,174	-
		<u>542,899</u>	<u>329,591</u>
		<u>₩ 4,790,636</u>	<u>₩ 7,842,446</u>

¹⁾ Present value discounts are recorded in relation to the ₩140,000 million of time deposits (1% interest, five-year maturity at the point of deposit, uncalled for five years) placed with Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.).

Included in cash and due from banks as of December 31, 2002 and 2001 are the following restricted deposits:

		In Millions of Won		
		2002	2001	Restrictions
Reserve deposits in the Bank of Korea and Korea Exchange Bank	₩ 1,377,891	₩ 3,450,528		General Banking Act
Deposits placed with Hansol Mutual Savings & Finance Co., Ltd.	140,000	145,000		Withdrawal at maturity
Deposits at insurance companies	66,000	749,723		Related to borrowings
Other deposits	20,653	56,543		Futures guarantee deposit
	<u>₩ 1,604,544</u>	<u>₩ 4,401,794</u>		

Continued:

The maturities of the amounts of due from banks as of December 31, 2002 are summarized as follows:

	In Millions of Won		
	Due from Banks in Won	Due from Banks in Foreign Currencies	Total
Due in 3 months or less	₩ 1,511,803	₩ 470,875	₩ 1,982,678
Due after 3 months through 6 months	-	72,024	72,024
Due after 6 months through 1 year	35,000	-	35,000
Due after 1 year through 2 years	50,000	-	50,000
Due after 2 years through 3 years	90,000	-	90,000
Due after 3 years through 4 years	-	-	-
Due after 4 years through 5 years	1,000	-	1,000
Thereafter	1,192	-	1,192
	<u>₩ 1,688,995</u>	<u>₩ 542,899</u>	<u>₩ 2,231,894</u>

4. Trading Securities

Trading securities as of December 31, 2002 and 2001 comprise the following:

	Par Value	Beginning Balance ¹⁾	Amortized Amount ²⁾	Balance Sheet Amount	
				2002	2001
Trading securities in Won					
Listed equity securities	₩ -	₩ 140,230	₩ 140,230	₩ 95,501	₩ 56,590
Government and municipal bonds	954,172	974,579	970,785	976,166	1,769,831
Finance debentures	1,397,731	1,385,611	1,384,443	1,388,997	2,102,761
Corporate bonds	2,370,529	2,747,343	2,741,049	2,731,459	2,839,845
Beneficiary certificates	-	3,698,994	3,699,767	3,862,439	4,148,264
Other trading securities ³⁾	-	176,462	182,215	207,041	658,919
		<u>9,123,219</u>	<u>9,118,489</u>	<u>9,261,603</u>	<u>11,576,210</u>
Trading securities in foreign currencies	12,526	12,364	12,366	11,842	58,128
		<u>₩ 9,135,583</u>	<u>₩ 9,130,855</u>	<u>₩ 9,273,445</u>	<u>₩ 11,634,338</u>

¹⁾ Book value as of December 31, 2001 or acquisition costs for the year ended December 31, 2002

²⁾ Beginning balance of accumulated amortization plus current year's amortization.

³⁾ Other trading securities include 161,993 million of commercial papers dominated in Korean Won.

Trading debt securities in Won are recorded at fair value using the market yield of bonds provided by the Korea Securities Dealers Association. Trading debt securities in foreign currencies are recorded at fair value using the market yield of bonds provided by bond dealers.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Trading securities risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won			
	Securities in Won		Securities in Foreign Currencies	
	Amount	Ratio (%)	Amount	Ratio (%)
By Country				
Korea	₩ 9,261,603	100.00	₩ 11,842	100.00
	<u>₩ 9,261,603</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>
By Type				
Fixed rate bond	₩ 4,294,774	46.37	₩ -	-
Floating rate bond	1,021,923	11.03	11,842	100.00
Equity securities	95,501	1.03	-	-
Others	3,849,405	41.57	-	-
	<u>₩ 9,261,603</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>
By Industry				
Government and government agencies	₩ 1,171,906	12.65	₩ -	-
Financial institutions	6,789,441	73.31	-	-
Others	1,300,256	14.04	11,842	100.00
	<u>₩ 9,261,603</u>	<u>100.00</u>	<u>₩ 11,842</u>	<u>100.00</u>

The maturities of the trading securities except equity securities as of December 31, 2002 are summarized as follows:

	In Millions of Won						
	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Trading Securities in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 3,887	₩ 39,996	₩ 170,472	₩ 3,857,413	₩ -	₩ 155,319	₩ 4,227,087
Due after 3~6 months	23,867	117,148	161,904	5,026	-	38,046	345,991
Due after 6~9 months	11,822	135,108	187,226	-	-	700	334,856
Due after 9~12 months	33,481	77,089	121,265	-	-	3,966	235,801
Due after 1~2 years	126,700	920,123	798,706	-	-	9,010	1,854,539
Due after 2~3 years	570,492	69,171	634,575	-	11,842	-	1,286,080
Due after 3~4 years	101,116	-	436,219	-	-	-	537,335
Due after 4~5 years	86,802	-	98,773	-	-	-	185,575
Thereafter	17,999	30,362	122,319	-	-	-	170,680
	<u>₩ 976,166</u>	<u>₩ 1,388,997</u>	<u>₩ 2,731,459</u>	<u>₩ 3,862,439</u>	<u>₩ 11,842</u>	<u>₩ 207,041</u>	<u>₩ 9,177,944</u>

As of December 31, 2002, the beneficiary certificates in trading securities include discretionary investing contract assets. Securities included in discretionary investing contract assets consist of Samsung Electronics Co., Ltd. stock and other 27 listed or registered stocks. Acquisition costs and fair values of these assets amount to ₩8,358 million and ₩7,260 million, respectively. The Bank recorded the difference between acquisition costs and fair values of ₩1,098 million as unrealized loss on trading securities.

5. Investment Securities

Investment securities as of December 31, 2002 and 2001 are as follows:

	In Millions of Won	
	2002	2001
Equity securities		
Marketable equity securities	₩ 272,973	₩ 366,512
Non-marketable equity securities	408,025	499,011
Domestic related parties	56,241	58,655
	<u>737,239</u>	<u>924,178</u>
Investment in special funds		
Stock market stabilization fund	12,947	23,178
Investment union fund	39,287	44,901
	<u>52,234</u>	<u>68,079</u>
Government and municipal bonds	4,609,487	3,795,572
Finance debentures	3,191,214	3,317,256
Corporate bonds	12,516,526	13,174,726
Beneficiary certificates	5,162,573	3,762,445
Securities lent	47,835	198,934
Other investment securities¹⁾	1,914	2,079
Securities denominated in foreign currencies		
Overseas related parties	2,363	2,303
Equity securities	30,436	35,640
Debt securities	1,237,040	1,371,796
	<u>1,269,839</u>	<u>1,409,739</u>
	<u>₩ 27,588,861</u>	<u>₩ 26,653,008</u>

¹⁾ Other investment securities include commercial papers and national stock trusts.

As of December 31, 2002, the amortized amounts and balance sheet amounts of the Bank's investment debt securities are as follows:

	In Millions of Won			
	Par Value	Beginning Balance ¹⁾	Amortized Amount	Balance Sheet Amount
Available-for-sale				
Government and municipal bonds	₩ 2,174,547	₩ 2,215,911	₩ 2,186,170	₩ 2,226,732
Finance debentures	2,308,398	2,257,078	2,249,679	2,267,156
Corporate bonds	3,834,894	3,753,493	3,639,398	3,695,983
Securities denominated in foreign currencies	1,194,164	1,054,763	1,029,891	1,053,170
	<u>9,512,003</u>	<u>9,281,245</u>	<u>9,105,138</u>	<u>9,243,041</u>
Held-to-maturity				
Government and municipal bonds	2,372,448	2,386,293	2,382,755	2,382,755
Finance debentures	951,000	924,048	924,059	924,058
Corporate bonds	8,772,500	8,909,211	8,821,272	8,820,543
Securities denominated in foreign currencies	239,662	168,215	179,361	183,870
	<u>12,335,610</u>	<u>12,387,767</u>	<u>12,307,447</u>	<u>12,311,226</u>
	<u>₩ 21,847,613</u>	<u>₩ 21,669,012</u>	<u>₩ 21,412,585</u>	<u>₩ 21,554,267</u>

¹⁾ Book value as of December 31, 2001 or acquisition costs for the year ended December 31, 2002.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

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. Available-for-sale debt securities in foreign currencies are recorded at fair value using the market yield of bonds provided by bond dealers.

Government and municipal bonds sold under repurchase agreements of ₩3,074,161 million and ₩2,955,442 million as of December 31, 2002 and 2001, respectively, are included in the investment securities (See Note 11).

Equity securities in related parties as of December 31, 2002 and 2001 are as follows:

Issuer	Ownership (%)	Acquisition Cost	Beginning Balance	Unrealized Gains (Losses)			Balance Sheet Amount	
				NI	R/E	C/A	2002	2001
KLB Securities Co., Ltd. ¹⁾	36.41	₩ 10,316	₩ -	₩ -	₩ -	₩ -	₩ -	₩ -
Jooeun Industrial Co., Ltd. ¹⁾	99.99	23,994	11,714	(11,714)	-	-	-	-
ING Life Korea Co., Ltd.	20.00	21,769	24,891	(3,278)	-	-	21,613	24,891
Korea Mortgage Co., Ltd.	26.67	30,628	32,487	1,080	-	-	33,567	32,487
Jeio Co., Ltd.	21.14	750	835	(288)	-	-	547	-
Korea Asset Investment Co., Ltd.	48.60	4,905	3,054	(2,540)	-	-	514	1,277
Kookmin Singapore Ltd. ¹⁾	100.00	12,123	2,084	-	-	-	2,084	2,303
Kookmin Finance Asia Ltd.(HK) ¹⁾	100.00	8,403	1,023	(744)	-	-	279	-
		<u>₩112,888</u>	<u>₩ 76,088</u>	<u>₩(17,484)</u>	<u>₩ -</u>	<u>₩ -</u>	<u>₩ 58,604</u>	<u>₩ 60,958</u>

¹⁾ KLB Securities Co., Ltd., Jooeun Industrial Co., Ltd., Kookmin Singapore Ltd. (Merchant Bank), Ltd. and Kookmin Finance Asia Ltd. (HK) are in the process of liquidation.

Equity securities, excluding equity securities in related parties, as of December 31, 2002 are as follows:

Issuer	Ownership (%)	Acquisition Cost	Fair Value or Net Asset Value ¹⁾	Balance Sheet Amount
				In Millions of Won
Marketable equity securities (KSE)				
Hyundai Construction Co., Ltd.	6.14	₩ 140,125	₩ 48,197	₩ 48,197
KP Chemical Co., Ltd.	7.89	36,650	22,818	22,818
Kia Motors Corp.	0.65	26,281	21,267	21,267
SK Securities Co., Ltd.	5.58	26,878	21,259	21,259
Hankang Restructuring Fund	6.25	21,444	16,632	16,632
INI Steel Co., Ltd.	2.14	9,564	14,469	14,469
Daewoo Securities Co., Ltd.	1.60	53,627	13,741	13,741
Ssangyong Motor Company	2.09	27,655	12,653	12,653
Saehan Industries Inc.	5.67	11,968	11,333	11,333
Samsung Electronics Co., Ltd.	0.02	5,205	9,420	9,420
KT	0.05	8,497	7,978	7,978
Korea Zinc Co., Ltd.	1.91	9,008	6,485	6,485
Daewoo Engineering & Construction Co., Ltd.	1.35	5,077	5,843	5,843
Korea Electric Power Corporation	0.05	6,120	5,475	5,475
Daewoo Heavy Industries & Machinery Ltd.	1.11	3,164	5,243	5,243
ByuckSan Engineering & Construction Co., Ltd.	5.25	6,610	4,631	4,631
Crown Confectionary Co., Ltd.	10.94	1,823	4,416	4,416
Shinwon Corp.	8.38	9,873	4,366	4,366
Nam-Kwang Engineering & Construction Co., Ltd.	2.25	2,797	1,499	1,499
Others	-	25,766	21,685	21,685
		<u>₩ 438,132</u>	<u>₩ 259,410</u>	<u>₩ 259,410</u>

Continued:

Issuer	Ownership (%)	Acquisition Cost	Fair Value or Net Asset Value ¹⁾	In Millions of Won	
				Balance Sheet Amount	
Marketable equity securities (KOSDAQ)					
C&H Capital Co., Ltd.	9.75	₩ 8,135	₩ 3,867	₩	3,867
CJ Corp.	0.73	300	2,538		2,538
Others	-	16,463	7,158		7,158
		24,898	13,563		13,563
Non-marketable equity securities					
Mutual Fund ²⁾	11.87	103,353	92,239		92,239
Korea Housing Guarantee Co., Ltd.	11.79	53,330	76,543		68,648
KT Icom Co., Ltd.	2.08	37,465	37,840		37,465
Dongbu Electronics Co., Ltd.	6.61	30,000	20,702		30,000
Hyundai Petrochemical Co., Ltd.	9.31	20,173	73,184		20,173
Daewoo Electronics Co., Ltd.	1.85	9,862	384		9,862
The Korea Securities Finance Corp.	2.40	8,160	10,371		8,160
Korea Asset Management Corp.	5.38	7,827	16,563		7,827
Samsung Life Insurance Co., Ltd.	0.11	7,479	5,988		7,479
Korea Highway Corp.	0.12	6,248	14,716		6,248
Hansol Patech Co., Ltd.	2.12	5,955	1,642		5,955
BC Card Co., Ltd.	4.95	5,738	8,040		5,738
Mirae Asset Securities Co., Ltd.	4.43	5,000	7,679		5,000
Others	-	176,031	97,982		103,231
		₩ 476,6210	₩ 463,873	₩	408,025
Equity securities denominated in foreign currencies					
Asia Credit Services (PTE) Ltd.	6.67	₩ 12,004	₩ 9,892	₩	9,892
Nanjing Kumho Tire Co., Ltd.	6.00	2,553	2,006		2,553
Investment Development Leasing Co.	10.00	1,539	2,089		2,089
Pan Asia Paper (Thailand) Co., Ltd.	4.12	4,835	2,876		2,876
Sahaviriya Steel Industry	1.09	900	2,016		2,016
Baring Communications Equity	6.73	4,921	1,947		1,947
China Enterprise Development Fund	2.63	1,224	1,224		1,224
Asia Finance and Investment Corp.	2.17	3,001	1,179		1,179
Tianjin Samsung Opto- Electronics.	10.00	1,173	1,381		1,173
Isotechnika	1.02	1,857	1,563		1,563
Others	-	5,974	7,046		3,924
		39,981	33,219		30,436
		₩ 979,632	₩ 770,065	₩	711,434

¹⁾ Net asset value is calculated using the monthly closing information of investees as of December 31, 2002 if possible, otherwise the most recent financial information is used.

²⁾ Investments in mutual funds are calculated using the 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.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Unrealized gains and losses on investment securities included in net income for the year ended December 31, 2002 are summarized as follows:

	Beginning Balance	Fair Value/ Net Asset Value	In Millions of Won Unrealized Gains (Losses)
Investment in special funds			
Stock market stabilization fund	₩ 10,577	₩ 12,947	₩ 2,370
Beneficiary certificates			
Special fund for corporate bonds	976	628	(348)
	₩ 11,553	₩ 13,575	₩ 2,022

Most of the operating assets in the above funds are composed of short-term financial assets and related gains and losses are recognized in the current year as unrealized gains and losses on investment in funds.

Impairment losses on investment securities for the year ended December 31, 2002 are as follows:

Issuer	Acquisition Cost	Impairment Loss	In Millions of Won Book Value
Equity Securities			
Marketable equity securities (KSE)			
Hyundai Construction Co., Ltd.	₩ 140,125	₩ 91,928	₩ 48,197
KP Chemical Co., Ltd.	36,650	13,832	22,818
Daewoo Securities Co., Ltd.	53,627	39,886	13,741
Ssangyong Motor Company	27,655	15,002	12,653
Saehan Industries Inc.	11,968	635	11,333
Shinwon Corp.	9,873	5,507	4,366
Woo Bang Housing & Construction Co., Ltd.	6,122	2,524	3,598
Hanmi Capital Co., Ltd.	2,335	994	1,341
Others	2,925	1,595	1,330
	291,280	171,903	119,377
Marketable equity securities (KOSDAQ)			
C&H Capital	8,135	4,268	3,867
Others	12,779	10,166	2,613
	20,914	14,434	6,480
Non-marketable equity securities			
Alpha Capital Corp.	3,919	1,081	2,838
Others	113,214	95,361	17,853
	117,133	96,442	20,691
Equity securities denominated in foreign currencies			
Asia Credit.	12,004	2,112	9,892
Pan Asia Paper.	4,835	1,959	2,876
Baring Communications Equity	4,921	2,974	1,947
Asia Finance and Investment Corp.	3,001	1,822	1,179
Others	3,105	2,050	1,055
	₩ 27,866	₩ 10,917	₩ 16,949

Continued:

Issuer	In Millions of Won		
	Acquisition Cost	Impairment Loss	Book Value
Investment on funds			
KB 14th Investment Union	₩ 1,000	₩ 75	₩ 925
Others	4,961	4,112	849
	<u>5,961</u>	<u>4,187</u>	<u>1,774</u>
	<u>463,154</u>	<u>297,883</u>	<u>165,271</u>
Debt Securities			
Corporate bonds			
Hyundai Engineering & Construction Co. Ltd.	69,400	40,811	28,589
H&CB 200105 ABS Specialty Co., Ltd.	23,500	7,459	16,041
Kookmin-2nd ABS Specialty Co., Ltd.	10,000	209	9,791
Kookmin-4th ABS Specialty Co., Ltd.	6,500	480	6,020
Kookmin-5th ABS Specialty Co., Ltd.	4,000	1,166	2,834
Others	746	730	16
	<u>114,146</u>	<u>50,855</u>	<u>63,291</u>
Debt securities denominated in foreign currencies			
Daehan Global	43,296	14,726	28,570
PT Pelabuan	14,028	5,025	9,003
Berjaya Group capital	1,991	530	1,461
Others	10,514	7,376	3,138
	<u>69,829</u>	<u>27,657</u>	<u>42,172</u>
	<u>183,975</u>	<u>78,512</u>	<u>105,463</u>
	<u>₩ 647,129</u>	<u>₩ 376,395</u>	<u>₩ 270,734</u>

For the year ended December 31, 2002, the recovery of impairment losses on investment equity securities amounts to ₩15,318 million related to the investments in Korea Housing Guarantee Co., Ltd. and the recovery of impairment losses on investment debt securities amounts to ₩6,800 million and ₩5,580 million related to the investments in Kookmin-3rd ABS Specialty Co., Ltd. and Kookmin-4th ABS Specialty Co., Ltd., respectively.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

Investment securities risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won			
	Securities in Won ¹⁾		Securities in Foreign Currencies	
	Amount	Ratio (%)	Amount	Ratio (%)
By Country				
Korea	₩ 26,271,187	100.00	₩ 924,237	72.78
USA	-	-	85,220	6.71
Philippines	-	-	66,708	5.25
Germany	-	-	30,010	2.36
Mexico	-	-	20,007	1.58
India	-	-	22,294	1.76
Indonesia	-	-	22,575	1.78
Hong Kong	-	-	19,132	1.51
Singapore	-	-	10,252	0.81
Thailand	-	-	11,978	0.94
Others	-	-	57,426	4.52
	<u>₩ 26,271,187</u>	<u>100.00</u>	<u>₩ 1,269,839</u>	<u>100.00</u>
By Type				
Fixed rate bonds	₩ 16,957,848	64.55	₩ 453,349	35.70
Floating rate bonds	4,837,263	18.41	491,096	38.67
Subordinated bonds	422,708	1.61	156,066	12.29
Convertible bonds	30,128	0.11	119,286	9.39
Equity securities	737,580	2.81	32,799	2.58
Others	3,285,660	12.51	17,243	1.37
	<u>₩ 26,271,187</u>	<u>100.00</u>	<u>₩ 1,269,839</u>	<u>100.00</u>
By Industry				
Government and government agencies	₩ 12,796,929	48.71	₩ 180,347	14.20
Financial institutions	10,397,551	39.58	614,224	48.37
Others	3,076,707	11.71	475,268	37.43
	<u>₩ 26,271,187</u>	<u>100.00</u>	<u>₩ 1,269,839</u>	<u>100.00</u>

¹⁾ Securities lent are not included.

Continued:

The maturities of the investment securities, excluding investment equity securities, investment in special funds, and securities lent, as of December 31, 2002 are summarized as follows:

In Millions of Won

	Government and Municipal Bonds	Finance Debentures	Corporate Bonds	Beneficiary Certificates	Securities in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 58,372	₩ 569,808	₩ 749,435	₩ 2,370,297	₩ 104,172	₩ 1,914	₩ 3,853,998
Due after 3~6 months	18,239	880,899	567,741	476,833	118,220	-	2,061,932
Due after 6 ~ 9 months	354,834	101,670	4,282,185	182,908	48,859	-	4,970,456
Due after 9 ~12 months	102,190	443,170	645,157	440,142	55,526	-	1,686,185
Due after 1~2 years	938,114	1,055,856	2,505,758	671,415	170,908	-	5,342,051
Due after 2~3 years	1,422,987	109,811	2,554,725	1,020,978	297,776	-	5,406,277
Due after 3~4 years	362,006	30,000	676,795	-	148,962	-	1,217,763
Due after 4~5 years	1,097,616	-	217,207	-	156,603	-	1,471,426
Thereafter	255,129	-	317,523	-	136,014	-	708,666
	₩4,609,487	₩3,191,214	₩12,516,526	₩5,162,573	₩1,237,040	₩ 1,914	₩26,718,754

Currency concentrations of securities denominated in foreign currencies as of December 31, 2002 are as follows:

In Millions of Won

	Trading Securities		Investment Securities	
	Amount	Ratio (%)	Amount	Ratio (%)
USD	₩ 11,842	100.00	₩ 1,202,365	94.69
JPY	-	-	48,398	3.81
DEM	-	-	5,667	0.45
EUR	-	-	3,740	0.29
THB	-	-	3,570	0.28
BDT	-	-	2,089	0.16
PHP	-	-	451	0.04
SFR	-	-	1,496	0.12
IDR	-	-	133	0.01
CHF	-	-	367	0.03
Others	-	-	1,563	0.12
	₩ 11,842	100.00	₩ 1,269,839	100.00

Securities lent as of December 31, 2002 are as follows:

In Millions of Won

Company	Security	Amount
LG Engineering & Construction Co., Ltd.	Government and municipal bonds	₩ 47,835

Trading and investment securities of ₩7,830,956 million (par value) can be discounted at the Bank of Korea as of December 31, 2002.

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, the following investment securities are pledged at various institutions:

Transaction	Related Liability	Amount	In Millions of Won	
			Securities Provided	
			Book Value	Pledge Value
Bonds sold under repurchase agreements		₩ 3,074,161	₩ 3,907,187	₩ 3,855,399
Borrowings from the Bank of Korea		671,854	2,141,059	2,119,350
Derivatives transaction	Borrowing within credit line		105,407	110,033
BOK settlements	Borrowing within credit line		507,753	504,300
Sale of non-performing loans	Borrowing within credit line		168,100	166,671
Borrowings denominated in foreign currencies		1,670	1,895	1,900
Borrowings for supporting venture fund etc.		17,244	4,927	4,749
			₩ 6,836,328	₩ 6,762,402

6. Loans

Loans as of December 31, 2002 and 2001 are summarized as follows:

Account	Detailed Account	In Millions of Won	
		2002	2001
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	₩ 28,774,621	₩ 22,829,596
	Notes discounted	1,851,133	2,235,289
	Overdraft accounts	568,702	397,592
	Trading notes	814,759	736,886
	Other operation loans	3,229,851	2,545,620
		35,239,066	28,744,983
	Facility loans		
	General facility loans	4,676,506	3,117,383
	Special purpose loans	-	417,174
	Other facility loans	1,287,125	899,890
		5,963,631	4,434,447
		41,202,697	33,179,430
Consumer loans	General consumer loans	39,713,543	34,367,459
	Consumer housing loans	33,731,435	25,181,841
	Remunerations on mutual installment savings	131,768	57,099
	Other consumer loans	632,172	385,488
		74,208,918	59,991,887
Public loans	Public operation loans	738,632	730,598
	Public facility loans	39,414	57,211
		₩ 778,046	₩ 787,809

Continued:

Account	Detailed Account	In Millions of Won	
		2002	2001
Other loans	Property formation loans	₩ 95,252	₩ 154,069
	Inter-bank loans	20,941	36,110
	Others	5,450	7,740
		<u>121,643</u>	<u>197,919</u>
Trust accounts	Loans on real estate collateral	<u>153,105</u>	<u>233,232</u>
Subsidiaries	Investment in direct financing leases	-	214,040
	Others	280,225	182,668
		<u>280,225</u>	<u>396,708</u>
		₩ 116,744,634	₩ 94,786,985
Loans in foreign currencies	Domestic funding loans	₩ 1,196,510	₩ 2,031,655
	Overseas funding loans	896,998	1,102,198
	Inter-bank loans	816,406	842,255
	Government funding loans	3,241	6,968
	Domestic usance bills	1,346,044	286,155
	Investment in direct financing leases	-	249,953
		<u>4,259,199</u>	<u>4,519,184</u>
Bills bought in Won		37,415	51,077
Bills bought in foreign currencies		756,300	1,006,095
Payments on guarantees		52,543	200,126
Credit card accounts	General credit sales	1,742,456	1,823,706
	Installment credit sales	4,678,785	3,795,928
	Cash services	4,555,004	5,265,089
	Card loans	3,965,349	3,180,790
	Others	25,952	23,321
		<u>14,967,546</u>	<u>14,088,834</u>
Bonds purchased under resale agreements ("RP")		-	640,000
Call loans	Call loans in Won	33,600	1,293,900
	Call loans in foreign currencies	195,741	78,401
	Inter-bank reconciliation funds	89,287	124,616
		<u>318,628</u>	<u>1,496,917</u>
Privately placed debentures		1,285,279	1,999,579
Loans due for equity conversion		7,643	219,048
Other loans		56,795	52,033
		<u>138,485,982</u>	<u>119,059,878</u>
Allowances for loan losses (Note 7)		(3,311,861)	(2,641,170)
Present value discounts		(30,509)	(77,987)
		₩ 135,143,612	₩ 116,340,721

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, restructured loans due to workout plans or other similar restructuring programs are as follows:

In Millions of Won

	Settlements by Issuance or Grants of							Present Value Discounts
	Balances before Restructuring	Exemption	Loans due for Equity Conversion	Equity Securities	Convertible Bonds	Balances after Restructuring		
Workout	₩ 285,613	₩ 2,891	₩ -	₩ 132,601	₩ 17,287	₩ 132,834	₩ 6,116	
Court receivership	117,385	-	3,932	96,228	-	17,225	2,811	
Court mediation	102,364	-	-	-	-	102,364	1,247	
Others	207,458	5,473	3,711	-	-	198,274	20,335	
	<u>₩ 712,820</u>	<u>₩ 8,364</u>	<u>₩ 7,643</u>	<u>₩ 228,829</u>	<u>₩ 17,287</u>	<u>₩ 450,697</u>	<u>₩ 30,509</u>	

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

The maturities of loans as of December 31, 2002 are as follows:

In Millions of Won

	Loans in Won	Loans in Foreign Currencies	Bills Bought ¹⁾	Credit Card	Call Loans	Privately Placed Debentures	Others	Total
Due in 3 months or less	₩ 14,867,849	₩ 1,938,187	₩ 657,03	₩ 6,141,478	₩ 318,628	₩ 80,380	₩ 54,138	₩ 24,057,693
Due after 3–6 months	13,850,529	293,937	111,137	6,012,599	-	96,905	3,711	20,368,818
Due after 6–12 months	24,302,835	492,198	8,123	1,253,302	-	287,164	113	26,343,735
Due after 1–2 years	19,262,743	391,018	7,160	708,737	-	336,207	25,993	20,731,858
Due after 2–3 years	26,797,660	273,303	7,160	455,008	-	419,595	-	27,952,726
Due after 3–4 years	2,461,268	131,375	3,102	98,306	-	59,889	-	2,753,940
Due after 4–5 years	3,058,047	133,052	-	267,112	-	5,012	30,802	3,494,025
Thereafter	12,143,703	606,129	-	31,004	-	127	2,224	12,783,187
	<u>₩ 116,744,634</u>	<u>₩ 4,259,199</u>	<u>₩ 793,715</u>	<u>₩ 14,967,546</u>	<u>₩ 318,628</u>	<u>₩ 1,285,279</u>	<u>₩ 116,981</u>	<u>₩ 138,485,982</u>

¹⁾ Bills bought in Won and Bills bought in foreign currencies.

Continued:

Loan risk concentrations as of December 31, 2002 are as follows:

	In Millions of Won				
	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
By Country					
Korea	₩116,744,634	₩ 3,458,539	₩ 17,324,751	₩137,527,924	99.30
Southeast Asia	-	67,192	95,482	162,674	0.12
Russia	-	118,840	-	118,840	0.09
China	-	12,931	677	13,608	0.01
Japan	-	245,078	-	245,078	0.18
USA/ Latin America	-	41,334	7,443	48,777	0.03
Others	-	315,285	53,796	369,081	0.27
	<u>₩116,744,634</u>	<u>₩ 4,259,199</u>	<u>₩ 17,482,149</u>	<u>₩138,485,982</u>	<u>100.00</u>
By Customer and Industry					
Industrial loans					
Financial institutions	₩ 620,231	₩ 741,872	₩ 358,528	₩ 1,720,631	1.24
Manufacturing companies	14,340,920	1,708,266	1,266,787	17,315,973	12.50
Service companies	3,621,947	886,256	94,780	4,602,983	3.32
Others	22,701,763	851,921	773,724	24,327,408	17.58
	<u>41,284,861</u>	<u>4,188,315</u>	<u>2,493,819</u>	<u>47,966,995</u>	<u>34.64</u>
Household loans	<u>74,681,727</u>	<u>61,138</u>	<u>14,988,330</u>	<u>89,731,195</u>	<u>64.79</u>
Public and other loans	<u>778,046</u>	<u>9,746</u>	<u>-</u>	<u>787,792</u>	<u>0.57</u>
	<u>₩116,744,634</u>	<u>₩ 4,259,199</u>	<u>₩ 17,482,149</u>	<u>₩138,485,982</u>	<u>100.00</u>

7. Allowances for Loan Losses

As of December 31, 2002 and 2001, allowances for loan losses are as follows:

	In Millions of Won	
Allowance for	2002	2001
Loans in Won	₩ 1,949,602	₩ 1,586,897
Loans in foreign currencies	113,034	293,304
Bills bought in Won and foreign currencies	20,213	97,269
Payments on guarantees	18,467	91,838
Credit card accounts	1,134,386	355,890
Privately placed debentures	34,365	101,834
Loans due for equity conversion	5,373	46,719
Other loans	13,798	22,726
	<u>3,289,238</u>	<u>2,596,477</u>
Other allowances	<u>22,623</u>	<u>44,693</u>
	<u>₩ 3,311,861</u>	<u>₩ 2,641,170</u>

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, allowances for loan losses and credit risk classifications are as follows:

In Millions of Won

		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Loan balance	₩108,373,870	₩ 5,264,333	₩ 2,298,262	₩ 541,340	₩ 242,631	₩116,720,436
	Allowances	726,276	210,621	470,326	299,748	242,631	1,949,602
	Percentage(%)	0.67	4.00	20.46	55.37	100.00	1.67
Loans in foreign currencies	Loan balance	3,820,712	234,042	153,193	38,914	8,317	4,255,178
	Allowances	14,999	14,119	49,628	25,971	8,317	113,034
	Percentage(%)	0.39	6.03	32.40	66.74	100.00	2.66
Bills bought ¹⁾	Loan balance	673,588	101,725	2,263	5,956	10,183	793,715
	Allowances	3,368	2,035	453	4,174	10,183	20,213
	Percentage(%)	0.50	2.00	20.02	70.08	100.00	2.55
Payments on guarantees	Loan balance	11,306	4,695	19,784	5,634	11,124	52,543
	Allowances	57	482	3,957	2,847	11,124	18,467
	Percentage(%)	0.50	10.27	20.00	50.53	100.00	35.15
Credit card accounts	Loan balance	12,316,550	1,972,420	113	638,959	39,504	14,967,546
	Allowances	265,458	392,522	23	436,879	39,504	1,134,386
	Percentage(%)	2.16	19.90	20.35	68.37	100.00	7.58
Call loans	Loan balance	318,628	-	-	-	-	318,628
	Allowances	-	-	-	-	-	-
	Percentage(%)	-	-	-	-	-	-
Privately placed debentures	Loan balance	1,176,482	32,937	57,779	16,312	1,702	1,285,212
	Allowances	5,874	1,339	12,288	13,162	1,702	34,365
	Percentage(%)	0.50	4.07	21.27	80.69	100.00	2.67
Loans due for equity conversion	Loan balance	-	-	2,103	5,540	-	7,643
	Allowances	-	-	1,144	4,229	-	5,373
	Percentage(%)	-	-	54.40	76.34	-	70.30
Other loans	Loan balance	28,581	-	10,671	15,194	126	54,572
	Allowances	143	-	2,134	11,395	126	13,798
	Percentage(%)	0.50	-	20.00	75.00	100.00	25.28
Total loans	Loan balance ²⁾	₩126,719,717	₩ 7,610,152	₩ 2,544,168	₩ 1,267,849	₩ 313,587	₩138,455,473
	Allowances ³⁾	1,016,175	621,118	539,953	798,405	313,587	3,289,238
	Percentage(%)	0.80	8.16	21.22	62.97	100.00	2.38

¹⁾ Bills bought in Won and foreign currencies

²⁾ The above amounts of loan balances are net of present value discounts.

³⁾ The above amounts of allowances for loan losses do not include other allowances.

Continued:

For the years ended December 31, 2002 and 2001, the changes in allowances for loan losses are as follows:

	In Millions of Won	
	2002	2001
Beginning Balance	₩ 2,641,170	₩ 2,250,507
Increase due to:		
Provision for loan losses	3,196,161	1,414,178
Business combination with H&CB	-	970,556
Collection of written-off loans	284,145	97,123
Troubled debt restructuring	61,342	45,458
Repurchase of loans sold	6,424	3,404
Reclassifications	83,181	3,230
Changes in exchange rates and others	25,108	27,763
	<u>3,656,361</u>	<u>2,561,712</u>
Decrease due to:		
Write-off of loans	2,552,014	1,459,540
Changes in scope of consolidation	83,722	-
Sale of loans	113,414	382,236
Conversion of loans into equity securities	136,185	103,472
Exemption of loans	8,364	38,737
Offset with present value discounts from troubled debt restructuring	61,104	32,967
Reclassifications	-	145,656
Changes in exchange rates and others	30,867	8,441
	<u>2,985,670</u>	<u>2,171,049</u>
Ending Balance	₩ 3,311,861	₩ 2,641,170

As of December 31, 2002, 2001 and 2000, the ratios of allowances for loan losses to loans are as follows:

	In Millions of Won		
	2002	2001	2000
Loans ¹⁾	₩138,455,473	₩118,981,891	₩ 60,463,017
Allowances for loan losses ²⁾	3,289,238	2,641,170	2,250,507
Ratio (%)	<u>2.38</u>	<u>2.22</u>	<u>3.72</u>

¹⁾ The above amounts of loans are net of present value discounts

²⁾ The above amounts of allowances for loan losses do not include other allowances.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

8. Fixed Assets

Fixed assets as of December 31, 2002 and 2001 comprise the following:

	2002			2001		
	Acquisition Cost	Accumulated Depreciation	Net Carrying Value	Acquisition Cost	Accumulated Depreciation	Net Carrying Value
In Millions of Won						
Tangible assets						
Land	₩ 1,231,177	₩ -	₩ 1,231,177	₩ 1,226,141	₩ -	₩ 1,226,141
Building and structures	919,541	120,353	799,188	885,132	101,967	783,165
Leasehold improvements	98,843	48,606	50,237	63,310	30,973	32,337
Equipment and vehicles	1,305,953	663,389	642,564	828,188	453,474	374,714
Leasing property ¹⁾	-	-	-	167,845	-	167,845
Construction in progress	1,197	-	1,197	5,774	-	5,774
	<u>₩ 3,556,711</u>	<u>₩ 832,348</u>	<u>2,724,363</u>	<u>₩ 3,176,390</u>	<u>₩ 586,414</u>	<u>2,589,976</u>
Intangible assets			632,115			694,135
Foreclosed assets (net of valuation allowance)			3,680			7,184
			<u>₩ 3,360,158</u>			<u>₩ 3,291,295</u>

¹⁾ The Leasing properties as of December 31, 2001 comprise the land and the construction expenses related to the housing construction of Jooeun Industrial Co., Ltd., which is excluded from the scope of consolidation as of December 31, 2002.

In accordance with the General Banking Act, the Bank is prohibited from investing in non-business purpose real property and may only hold business-purpose real property within its own equity amount.

All of the Bank's tangible assets, other than those personal properties valued under ₩1 million, are covered by insurance policies of ₩1,285,072 million and ₩1,103,582 million as of December 31, 2002 and 2001, respectively. All vehicles are covered by legal and general insurance policies.

Movements in intangible assets for the year ended December 31, 2002 are as follows:

	Beginning Balance			Increase		Decrease		Ending Balance	
In Millions of Won									
Goodwill	₩	691,587	₩	-	₩	77,581	₩	614,006	
Negative goodwill		-		(346)		(46)		(300)	
Rights to income on donated asset		118		-		8		110	
Store possessory right		183		-		22		161	
Trademarks		131		1		121		11	
Others		2,116		18,281		2,270		18,127	
	₩	<u>694,135</u>	₩	<u>17,936</u>	₩	<u>79,956</u>	₩	<u>632,115</u>	

The total government-posted price of land, used for tax imposition and compensation for confiscation, as of December 31, 2002 and 2001 is as follows:

	2002		2001	
	Book Value	Appraisal Value	Book Value	Appraisal Value
In Millions of Won				
Lands included in tangible assets	₩ 1,231,177	₩ 1,023,116	₩ 1,226,141	₩ 1,014,740
Lands included in foreclosed assets	1,923	931	4,253	13,492
	<u>₩ 1,233,100</u>	<u>₩ 1,024,047</u>	<u>₩ 1,230,394</u>	<u>₩ 1,028,232</u>

9. Other Assets

Other assets as of December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Guarantee deposits paid	₩ 1,342,223	₩ 1,251,727
Accounts receivable	1,887,952	1,764,224
Accrued income	1,278,215	1,344,564
Payments in advance	59,331	108,150
Prepaid expenses	148,825	54,664
Deferred tax assets (Note 27)	188,068	147,839
Derivative assets (Note 17)	668,049	277,699
Unsettled exchange assets	1,087,587	1,490,602
Leased property	93	123,875
Loans to trust accounts	361,444	313,511
Others	41,127	185,387
(Allowance for losses)	(93,263)	(204,986)
(Present value discounts)	(89)	(20,258)
	<u>₩ 6,969,562</u>	<u>₩ 6,836,998</u>

10. Deposits

Deposits as of December 31, 2002 and 2001 comprise the following:

	Annual Interest (%)	In Millions of Won	
		2002	2001
Deposits in Won			
The Bank's demand deposits	0.0-0.5	₩ 12,975,321	₩ 10,816,856
The Bank's savings deposits	0.5-12.38	105,949,306	101,950,655
Trust accounts' deposits	-	3,697,202	5,397,428
Subsidiaries' deposits	2.0	13,038	12,391
		<u>122,634,867</u>	<u>118,177,330</u>
Deposits in foreign currencies			
The Bank's demand deposits	0.0-3.0	585,796	456,146
The Bank's savings deposits	0.44-8.0	497,852	610,996
Subsidiaries deposits	-	128,356	50,421
		<u>1,212,004</u>	<u>1,117,563</u>
Certificates of deposit	4.0-4.80	3,044,089	1,154,056
		<u>₩ 126,890,960</u>	<u>₩ 120,448,949</u>

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

The maturities of deposits as of December 31, 2002 are as follows:

	In Millions of Won			
	Deposits in Won	Deposit in Foreign Currencies	Certificates of Deposits	Total
Due in 3 months or less	₩ 64,763,664	₩ 1,011,031	₩ 1,496,052	₩ 67,270,747
Due after 3 months through 6 months	13,250,249	107,878	1,480,311	14,838,438
Due after 6 months through 1 year	31,818,169	73,691	67,726	31,959,586
Due after 1 year through 2 years	7,302,870	18,914	-	7,321,784
Due after 2 years through 3 years	4,195,407	416	-	4,195,823
Due after 3 years through 4 years	694,941	-	-	694,941
Due after 4 years through 5 years	264,142	74	-	264,216
Thereafter	345,425	-	-	345,425
	<u>₩122,634,867</u>	<u>₩ 1,212,004</u>	<u>₩ 3,044,089</u>	<u>₩126,890,960</u>

11. Borrowings

Borrowings as of December 31, 2002 and 2001 comprise the following:

	Annual Interest (%)	In Millions of Won	
		2002	2001
Borrowings in Won			
Borrowings from the Bank of Korea	2.50~8.00	₩ 671,854	₩ 1,270,163
Borrowings from the government	0.00~6.00	1,070,912	989,162
Borrowings from banking institutions	2.00~9.55	2,460,871	1,386,637
Borrowings from National Housing Fund	3.00~8.00	126,085	141,304
Borrowings from non-banking financial Institutions	2.00~11.84	3,381,211	975,107
Other borrowings	2.20~7.00	1,130,930	3,445,022
		<u>8,841,863</u>	<u>8,207,395</u>
Borrowings in foreign currencies			
Borrowings from domestic banks	1.78~6.95	220,603	914,285
Borrowings from foreign banks	0.19~3.45	2,328,134	1,972,600
Borrowings from other financial institutions	2.13~3.34	592,014	150,629
		<u>3,140,751</u>	<u>3,037,514</u>
Bonds sold under repurchase agreement	2.29~4.85	3,074,161	2,955,442
Bills sold	4.00~4.80	72,860	79,443
Due to the Bank of Korea denominated in foreign currencies	-	37,493	126,501
Call money	0.25~5.85	305,966	2,701,216
		<u>15,473,094</u>	<u>17,107,511</u>
(Present value discounts) ¹⁾		-	(34,829)
		<u>₩ 15,473,094</u>	<u>₩ 17,072,682</u>

¹⁾ The present value discounts as of December 31, 2001 are those relating to the debt restructuring of Kookmin Leasing Co., Ltd. and Alpha capital Co., Ltd., respectively, which are excluded from the scope of the consolidated financial statements as of December 31, 2002.

Continued:

The maturities of borrowings as of December 31, 2002 are as follows:

	In Millions of Won			
	Borrowings in Won	Borrowings in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 2,272,675	₩ 1,740,330	₩ 2,340,074	₩ 6,353,079
Due after 3 months through 6 months	1,593,961	363,952	672,386	2,630,299
Due after 6 months through 1 year	1,605,463	390,082	478,020	2,473,565
Due after 1 year through 2 years	1,472,074	327,061	-	1,799,135
Due after 2 years through 3 years	638,707	272,057	-	910,764
Due after 3 years through 4 years	331,489	552	-	332,041
Due after 4 years through 5 years	247,402	391	-	247,793
Thereafter	680,092	46,326	-	726,418
	<u>₩ 8,841,863</u>	<u>₩ 3,140,751</u>	<u>₩ 3,490,480</u>	<u>₩ 15,473,094</u>

12. Debentures

Debentures as of December 31, 2002 and 2001 comprise the following:

	Annual Interest (%)	In Millions of Won	
		2002	2001
Debentures in Won			
Subordinated debentures	5.68~16.00	₩ 4,863,125	₩ 3,634,082
Convertible debentures	-	-	69,468
Discounted debentures	4.46~7.38	9,627,021	2,208,599
Coupon debentures	4.78~10.48	3,822,818	1,797,479
Compound interest debentures	4.76~10.57	4,522,384	4,912,982
		<u>22,835,348</u>	<u>12,622,610</u>
Discounts on debentures		<u>(273,702)</u>	<u>(124,561)</u>
		<u>22,561,646</u>	<u>12,498,049</u>
Debentures denominated in foreign currencies			
Regular debentures	1.95~5.00	891,161	1,369,967
Discounts on debentures		<u>(2,461)</u>	<u>(6,801)</u>
		<u>888,700</u>	<u>1,363,166</u>
		<u>₩ 23,450,346</u>	<u>₩ 13,861,215</u>

Continued:

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

As of December 31, 2002, debentures in Won comprise the following:

	Issue Date	Hundred Millions of Won	Annual Interest (%)	Maturity
Subordinated				
Floating rate	1998-12-29	₩ 2,212	5.68	2004-03-31
	1998-12-29	883	6.68	2004-03-31
Fixed rate	1997-12-29	1,000	16.00	2004-01-05
	1998-06-18	600	15.66	2003-07-18
	1998-06-23	1,749	15.02	2003-11-15
	2002-12-18	1,100	8.00	2008-01-18
Fixed rate ¹⁾	1997-01-27~08-27	1,049	11.04~15.66	2003-01-27~08-27
	2000-03-27	2,000	9.65	2005-03-27
	2000-06-28	2,540	9.04~9.10	2006-01-28
	2000-09-27	3,000	8.99	2006-01-27
	2000-09-28	1,500	8.79~8.85	2006-01-28
	2000-11-28	1,000	8.65~8.71	2006-02-28
	2000-11-28	1,620	9.57~9.65	2010-11-28
	2000-12-27	2,000	8.71	2006-01-27
	2001-05-28	2,000	7.60~7.65	2007-02-28
	2001-06-27	1,600	7.68	2008-03-27
	2001-06-27	2,175	7.86	2009-03-27
	2001-08-28	1,000	6.69~6.73	2007-08-28
	2001-09-28	1,500	6.69~6.73	2008-03-28
	2002-03-27	2,417	7.06~7.10	2008-01-27
	2002-07-27	3,024	6.96~7.00	2008-01-27
	2002-09-27	2,574	6.27~6.30	2008-03-27
	2002-09-27	1,500	6.51~6.55	2010-03-27
	2002-09-27	926	6.66~6.70	2013-03-27
	2002-11-27	4,007	6.07~6.10	2008-05-27
	2002-11-27	578	6.27~6.30	2010-05-27
	2002-11-27	1,003	6.51~6.55	2013-05-27
	2002-12-27	304	6.55	2014-12-27
	2002-12-27	100	6.20	2008-06-27
2002-12-27	900	6.40	2010-06-27	
2002-12-27	500	6.65	2013-06-27	
Senior				
Fixed rate	2000-11-28	2,000	7.01	2003-11-28
	2000-12-28	1,600	7.01	2003-12-28
	2001-02-28	800	5.48	2004-02-28
	2001-06-28	2,300	5.87	2004-06-28
	2001-07-28	600	5.82~5.87	2004-07-28
	2001-08-28	600	5.82	2004-08-28
	2002-09-12	100	6.92	2004-09-12
	1988-07-27~2003-01-27	114,777	4.12~10.57	1991-04-30~2008-01-27
Senior Housing debentures ¹⁾	1989-08-31~2000-08-31	13	6.28~16.28	1990-11-30~2005-03-31
Subordinated housing debentures	1998.12.29	270	5.68	2004-03-31
Senior credit card account	2000-03-09~2002-12-09	56,932	2.68~10.5	2003-03-09~2008-04-10
		₩ 228,353		

¹⁾ Debentures sold over the counter.

Continued:

As of December 31, 2002, debentures denominated in foreign currencies comprise the following:

	Issue Date	Thousands of Dollars		Annual Interest (%)	Maturity	Listings
Floating rate	2000-04-10	USD	40,000	2.86	2003-04-10	Not listed
	2000-06-02	USD	10,000	2.77	2003-06-02	Not listed
	2000-08-10	USD	12,500	2.65	2003-08-11	Not listed
	2002-04-03	USD	46,000	1.95	2003-04-02	Not listed
	2002-04-03	USD	81,000	2.06	2004-04-03	Not listed
	2002-07-03	HKD	800,000	2.02	2003-07-02	Not listed
	2002-12-23	USD	8,000	2.00	2004-12-23	Not listed
	2002-12-23	USD	77,000	2.10	2005-12-23	Not listed
	Fixed rate	2000-04-20	SGD	100,000	5.00	2003-04-20
2002-12-10		USD	307,674	4.63	2007-02-10	Luxembourg
USD equivalent (in thousands of USD)		USD	742,387			
KRW equivalent (in millions of Won)		₩	891,161			

The issuance limit of finance debentures issued in Won and foreign currencies is 300% of the BIS (bank for international settlements) shareholder's equity according to the Enforcement Ordinance of the Bank Law. However, these limits under the Bank Law do not apply to the Bank's long-term bank debentures issued for the repayment of the KLB debentures acquired due to the merger with KLB.

On November 25, 2002, Goldman Sachs Capital Koryo, L.P. converted \$200 million of its subordinated foreign currency convertible bonds, all of which had been outstanding as of December 31, 2001, into common stocks (See Notes 19).

The maturities of debentures as of December 31, 2002 are as follows:

	In Millions of Won		
	Won	Foreign Currencies	Total
Due in 3 months or less	₩ 2,723,419	₩ -	₩ 2,723,419
Due after 3 months through 6 months	3,304,664	307,557	3,612,221
Due after 6 months through 1 year	6,738,761	15,005	6,753,766
Due after 1 year through 2 years	4,170,272	106,835	4,277,107
Due after 2 years through 3 years	1,611,878	92,431	1,704,309
Due after 3 years through 4 years	1,200,019	-	1,200,019
Due after 4 years through 5 years	374,467	369,333	743,800
Thereafter	2,711,868	-	2,711,868
	₩ 22,835,348	₩ 891,161	₩ 23,726,509

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

13. Accrued Retirement Benefits

The movements in accrued retirement benefits for the year ended December 31, 2002 are as follows:

In Millions of Won

	Beginning Balance	Change in the Scope of Consolidation	Amounts Provided	Amounts Paid Out	Ending Balance
Retained retirement benefits	₩ 25,640	₩ (1,735)	₩ 49,509	₩ 22,092	₩ 51,322
Contributed retirement benefits	35,611	978	64,514	1,944	99,161
Total accrued retirement benefits	<u>61,251</u>	<u>(757)</u>	<u>114,023</u>	<u>24,034</u>	<u>150,483</u>
Contribution to National Pension Fund	(375)	-	-	(169)	(206)
Contribution to pension funds	(35,611)	437	(65,931)	(1,944)	(99,161)
	<u>₩ 25,265</u>	<u>₩ (320)</u>	<u>₩ 48,092</u>	<u>₩ 21,921</u>	<u>₩ 51,116</u>

For the year ended December 31, 2002, the Consolidated Company paid ₩72,809 million as retirement benefits, including ₩48,775 million of special retirement benefits for early retirement.

Contributed retirement benefits, comprising approximately 65.90% of total accrued retirement benefits as of December 31, 2002, represent the Bank's contributions to pension funds at five insurance companies, including Korea Life Insurance Co., Ltd., and the Bank's employees hold the right of payment from these funds.

14. Employee Stock Options

The Bank, under the approval of the Board of Directors, granted stock options to its executives on March 18, 2000, March 15, 2001, November 16, 2001, March 22, 2002, and July 26, 2002. 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 December 31, 2002 are as follows:

	Stock Options Transferred from H&CB								
	Series 1	Series 2	Series 3	Series 4	Series 5	Series 6	Series 7 ^{1) 2)}	Series 8 ²⁾	Series 9
Grant date	00.3.18	01.3.15	98.10.31	99.2.27	00.2.28	01.3.24	01.11.16	02.3.22	02.7.26
Shares granted	222,094	214,975	400,000	280,000	267,000	111,000	650,000	622,000	30,000
Shares expired to date	109,565	16,882	-	59,892	65,218	21,173	-	43,000	-
Shares exercised	-	-	320,000	220,108	-	-	-	-	-
Shares outstanding	112,529	198,093	90,000	-	201,782	89,827	650,000	579,000	30,000
Exercise method	The Bank's choice of issuance or net settlement								
Exercise price	W 23,469	W 28,027	W 5,000	W 13,900	W 27,600	W 25,100	W 51,200	W 57,100	W 58,800
Exercise period	03.3.19~ 05.3.18	04.3.16~ 09.3.15	01.11.1~ 04.10.31	02.2.28~ 05.2.27	03.3.1~ 06.2.28	04.3.25~ 07.3.24	04.11.17~ 09.11.16	05.3.23~ 10.3.22	05.7.27~ 10.7.26

¹⁾ The stock options do not include the shares which will be additionally granted if the recent three-month weighted average stock price of the Bank before exercise is higher than that of any other listed banks.

²⁾ The exercise price may be affected by the fluctuation of the stock price index of the banking industry

Continued:

The Bank had applied the fair value method using an option-pricing model in measuring compensation cost until the prior period. However, starting from the current period, expecting a high probability of grant and exercise as stock appreciation rights, the Bank changed the measurement method to the intrinsic value method. As a result, previous amounts recorded in capital adjustments (stock options) have been reclassified into accrued expenses. Compensation costs are summarized as follows:

	In Millions of Won						
	Series 1	Series 2	Series 3	Series 5	Series 6	Series 7	Total
Previously recognized compensation cost	₩ 830	₩ 859	₩ 3,584	₩ 1,896	₩ 475	₩ 363	₩ 8,007
Currently recognized compensation cost	1,081	756	(624)	848	411	(363)	2,109
Accumulated compensation cost	1,911	1,615	2,960	2,744	886	-	10,116
Compensation cost to be recognized	174	1,153	-	161	633	-	2,121
Total compensation cost	₩ 2,085	₩ 2,768	₩ 2,960	₩ 2,905	₩ 1,519	₩ -	₩ 12,237

The compensation costs to be recognized in the future are as follows:

	In Millions of Won				
	Series 1	Series 2	Series 5	Series 6	Total
Within 1 year	₩ 174	₩ 923	₩ 161	₩ 506	₩ 1,764
After 1 year through 2 years	-	230	-	127	357
	₩ 174	₩ 1,153	₩ 161	₩ 633	₩ 2,121

Kookmin Credit Card Co., Ltd has accounted for its stock options under the fair value method and recorded its compensation costs in capital adjustments.

15. Other Liabilities

Other liabilities as of December 31, 2002 and 2001 are as follows:

	In Millions of Won	
	2002	2001
Accrued retirement benefits (Note 13)	₩ 51,116	₩ 25,265
Allowance for loss on acceptances and guarantees (Note 16)	2,304	43,823
Due to trust accounts	633,555	1,466,530
Accounts payable	2,415,205	1,486,297
Accrued expenses	5,257,319	5,450,696
Advances from customers	253,593	138,079
Unearned income	152,423	169,965
Withholding taxes	92,425	147,920
Guarantee deposits received	108,705	154,312
Deferred income tax liability (Note 27)	56	824
Derivative liabilities (Note 17)	526,887	271,955
Unsettled domestic exchange transaction	541,757	1,443,480
Due to agencies	486,413	705,727
Other allowances ¹⁾	53,277	52,965
Giro accounts	289,081	264,477
Other	92,657	116,689
	₩ 10,956,773	₩ 11,939,004

¹⁾ The Bank provided other allowances for possible losses in relation to the combination with the overseas branches of H&CB.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

16. Guarantees and Acceptances

Guarantees and acceptances as of December 31, 2002 and 2001 are summarized as follows:

	In Millions of Won	
	2002	2001
Outstanding Guarantees and acceptances		
In Korean Won		
Guarantees on debentures	₩ 571	₩ 6,011
Guarantees on loan collateral	39,234	59,930
Guarantees on commercial bills	646	230
Others	251,833	205,331
	<u>292,284</u>	<u>271,502</u>
In Foreign Currencies		
Acceptances on letters of credit	203,939	1,769,695
Acceptances for letters of guarantee for importers	111,016	72,383
Guarantees for performance	71,577	177,278
Guarantees for bid	1,077	744
Guarantees for borrowings	31,055	29,028
Guarantees for repayment of advances	25,707	2,440
Others	311,582	502,231
	<u>755,953</u>	<u>2,553,799</u>
	<u>1,048,237</u>	<u>2,825,301</u>
Contingent guarantees and acceptances		
Letters of Credit	1,253,640	1,328,289
Others	63,524	58,739
	<u>1,317,164</u>	<u>1,387,028</u>
	<u>₩ 2,365,401</u>	<u>₩ 4,212,329</u>

As of December 31, 2002, the allowances for losses on outstanding guarantees and acceptances according to credit risk classifications are as follows:

		In Millions of Won					
		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Won	Balance	₩ 273,097	₩ 17,215	₩ 1,820	₩ 152	₩ -	₩ 292,284
	Allowance	-	-	381	143	-	524
	Ratio (%)	-	-	20.00	94.08	-	0.18
Foreign currencies	Balance	678,333	69,770	7,512	227	111	755,953
	Allowance	-	-	1,545	124	111	1,780
	Ratio (%)	-	-	20.57	54.63	100	0.24
Total	Balance	₩ 951,430	₩ 86,985	₩ 9,332	₩ 379	₩ 111	₩ 1,048,237
	Allowance	-	-	1,926	267	111	2,304
	Ratio (%)	-	-	20.46	70.45	100	0.22

Continued:

The allowance ratios for outstanding guarantees and acceptances as of December 31, 2002, 2001 and 2000 are as follows:

	2002	2001	2000
Outstanding Guarantees and acceptances	₩ 1,048,237	₩ 2,825,301	₩ 3,059,541
Allowances for losses from outstanding guarantees and acceptances	2,304	43,823	37,331
Ratio (%)	0.22	1.55	1.22

For the years ended December 31, 2002 and 2001, the changes in allowances for losses on outstanding guarantees and acceptances are as follows:

	2002	2001
Beginning balance	₩ 43,823	₩ 37,331
Increase due to the business combination with H&CB	-	14,943
Reversal of allowance	(37,436)	(8,790)
Changes in foreign exchange rates	(4,083)	339
Ending balance	₩ 2,304	₩ 43,823

The guarantees and acceptances risk concentration by country as of December 31, 2002 are as follows:

	Outstanding Guarantees and Acceptances		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
	Korea	₩ 1,003,703	95.75	₩ 1,310,406	99.49	₩ 2,314,109
USA	33,571	3.20	168	0.01	33,739	1.43
Others	10,963	1.05	6,590	0.50	17,553	0.74
	₩ 1,048,237	100.00	₩ 1,317,164	100.00	₩ 2,365,401	100.00

The guarantees and acceptances risk concentration by industry and customer as of December 31, 2002 are as follows:

	Outstanding Guarantees and Acceptances		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
	Industrial					
Manufacturing	₩ 365,324	34.85	₩ 792,734	60.18	₩ 1,158,058	48.96
Service	163,138	15.56	41,391	3.14	204,529	8.65
Finance	58,223	5.56	86	0.01	58,309	2.46
Others	458,176	43.71	482,953	36.67	941,129	39.79
	1,044,861	99.68	1,317,164	100.00	2,362,025	99.86
Household	3,376	0.32	-	-	3,376	0.14
	₩ 1,048,237	100.00	₩ 1,317,164	100.00	₩ 2,365,401	100.00

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

17. Derivatives

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

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

Hedge derivatives comprise mainly of interest rate swaps to hedge the fair value changes or cash flow changes arising from the interest rate risk. 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 re-measured with the changes in fair value attributable to the hedged risk reported currently in earnings or where the hedged item cannot be individually identified.

For the derivative instruments for cash flow hedging purposes, the period in which the forecasted transactions are expected to occur is within 63 months from December 31, 2002, and all deferred losses recorded in capital adjustments at that date are expected to be included in the determination of net income within the 63-month period.

The notional amounts outstanding for derivative contracts as of December 31, 2002 and 2001 are as follows:

In Millions of Won

	Notional Amount					
	2002			2001		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest related						
Future	₩ 365,513	₩ -	₩ 365,513	₩ 732,431	₩ -	₩ 732,431
Option	310,700	-	310,700	-	-	-
Swap	15,840,496	1,110,120	16,950,616	4,639,382	358,118	4,997,500
	<u>16,516,709</u>	<u>1,110,120</u>	<u>17,626,829</u>	<u>5,371,813</u>	<u>358,118</u>	<u>5,729,931</u>
Currency related						
Forward	13,186,383	-	13,186,383	8,447,210	-	8,447,210
Future	739,386	-	739,386	620,019	-	620,019
Option bought	48,616	-	48,616	2,652	-	2,652
Option sold	127,863	-	127,863	5,304	-	5,304
Swap	3,141,672	-	3,141,672	2,544,218	-	2,544,218
	<u>17,243,920</u>	<u>-</u>	<u>17,243,920</u>	<u>11,619,403</u>	<u>-</u>	<u>11,619,403</u>
Stock related						
Option bought	138,343	-	138,343	-	-	-
Option sold	100,000	-	100,000	6,316	-	6,316
	<u>238,343</u>	<u>-</u>	<u>238,343</u>	<u>6,316</u>	<u>-</u>	<u>6,316</u>
Credit related						
Credit	-	-	-	39,783	-	39,783
	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,783</u>	<u>-</u>	<u>39,783</u>
	<u>₩33,998,972</u>	<u>₩ 1,110,120</u>	<u>₩35,109,092</u>	<u>₩17,037,315</u>	<u>₩ 358,118</u>	<u>₩17,395,433</u>

Continued:

Gains and losses on derivatives are as follows:

	In Millions of Won	
	2002	2001
Gain on derivatives		
Gain on derivatives transactions	₩ 1,776,807	₩ 2,136,038
Gain on valuation of derivatives	601,786	164,625
Gain on fair value hedged items	-	14,077
	<u>₩ 2,378,593</u>	<u>₩ 2,314,740</u>
Loss on derivatives		
Loss on derivatives transactions	₩ 1,625,534	₩ 2,103,513
Loss on valuation of derivatives	558,438	231,844
Loss on fair value hedged items	9,213	1,540
	<u>₩ 2,193,185</u>	<u>₩ 2,336,897</u>

Derivative valuation as of December 31, 2002 is as follows:

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)		
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability	Capital Adjustment
Interest related									
Option	₩ 191	₩ -	₩ 191	₩ 176	₩ -	₩ 176	₩ 375	₩ 334	₩ -
Swap	135,541	9,213	144,754	233,468	-	233,468	148,064	244,212	1,837
	<u>135,732</u>	<u>9,213</u>	<u>144,945</u>	<u>233,644</u>	<u>-</u>	<u>233,644</u>	<u>148,439</u>	<u>244,546</u>	<u>1,837</u>
Currency related									
Forward	229,907	-	229,907	209,394	-	209,394	229,446	198,334	-
Option bought	1,404	-	1,404	-	-	-	1,023	-	-
Option sold	-	-	-	732	-	732	-	872	-
Swap	223,171	-	223,171	112,319	-	112,319	282,226	78,456	-
	<u>454,482</u>	<u>-</u>	<u>454,482</u>	<u>322,445</u>	<u>-</u>	<u>322,445</u>	<u>512,695</u>	<u>277,662</u>	<u>-</u>
Stock related									
Option bought	2,359	-	2,359	-	-	-	6,915	-	-
Option sold	-	-	-	2,349	-	2,349	-	4,679	-
	<u>2,359</u>	<u>-</u>	<u>2,359</u>	<u>2,349</u>	<u>-</u>	<u>2,349</u>	<u>6,915</u>	<u>4,679</u>	<u>-</u>
	<u>₩ 592,573</u>	<u>₩ 9,213</u>	<u>₩ 601,786</u>	<u>₩ 558,438</u>	<u>₩ -</u>	<u>₩ 558,438</u>	<u>₩ 668,049</u>	<u>₩ 526,887</u>	<u>₩ 1,837¹⁾</u>

¹⁾ The amount of capital adjustment includes W490 million of minority interest portion of unrealized gains on derivatives.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

18. Commitments and Contingencies

As of December 31, 2002, 149 pending legal actions with an aggregate amount of claims of ₩257,438 million are charged against the Consolidated Company and the Consolidated Company has also filed 192 lawsuits against various parties, which are still pending with an aggregate amount of claims of ₩140,647 million. Management believes that the actions related to the Consolidated Company are without merit and that the ultimate liability, if any, will not materially affect the Bank's financial position.

The Bank, under the Mutual Savings & Finance Company Act, is liable for the payment of the deposits of Orange Mutual Savings & Finance Co., Ltd. (previously, Kookmin Mutual Savings & Finance Co., Ltd.) and Hansol Mutual Savings & Finance Co., Ltd. (previously, Bukook Mutual Savings & Finance Co., Ltd.), previously the Bank's subsidiaries but which were sold during 1999, if they enter into bankruptcy within 3 years of sale. Orange Mutual Savings & Finance Co., Ltd. is currently under going bankruptcy procedures due to the disapproval of its business by the Financial Supervisory Commission. Korea Deposit Insurance Corporation (KDIC) has paid for the deposit money subject to the Depositor Protection Act. Despite the fact that Resolution and Finance Corp. (a subsidiary of KDIC) has filed a lawsuit against the Bank for the recovery of the repayment, the resulting losses from such lawsuit is not expected to materially affect the Consolidated Company's financial statements.

The Bank has credit lines with and commitments to purchase commercial paper from asset securitization companies. Under these commitments, the Bank provides money, in case of a temporary fund shortage, for the principal and interest repayment of these companies' senior bonds within the contracted term and amounts. As of December 31, 2002, under these commitments, the aggregate committed credit line and loans outstanding are ₩3,280,638 million and ₩26,762 million, respectively. Also, the Bank entered into arrangements to purchase ₩1,617,000 million of commercial papers issued by the securitization companies. The Bank has arranged various methods to compensate for losses on these credit line commitments including payment guarantees, repurchase contracts, surety certificate guarantees, and cash reserve. Also, resulting expected losses amounting to ₩9,938 million are reserved as other allowances.

Pursuant to the asset securitization plans, the Bank previously sold loans to special purpose entities in previous periods. The related contracts for asset securitization stipulate the Bank's performance of warranty liability for loans sold to Kookmin 6th-ABS Specialty Co., Ltd. and Jooeun 5th-ABS Specialty Co., Ltd. (collectively, "the SPEs") when the underlying loans are delinquent for a certain period of time or go into default. Accordingly, the Bank bears possible liabilities for collateral performance toward the SPEs within the limits of ₩72,000 million and ₩66,500 million, respectively, as of December 31, 2002. Kookmin Credit Card Co., Ltd., a subsidiary of the Bank sold some assets to ABS Specialty Co., Ltd and other special purpose entities. in accordance with the relevant law and the Loan Sale Contract, and the balances which have not matured as of December 31, 2002 amounted to ₩7,710,322 million. No adjustments have been made in the accompanying financial statements related to contingent losses that may arise from these transactions.

As of December 31, 2002, loan sales to Korea Asset Management Corporation ("KAMCO") are completed and the Bank provided an allowance of ₩15,073 million for estimated losses from the repurchase of loans sold to KAMCO that are under the repurchase agreement (See Note 15).

The Bank sold 65.43% of its 85.43% investment in Alpha Capital Corp. (Jooeun Leasing Co., Ltd. until prior period) and ₩172,024 million of its loans to Sun Capital Inc. for ₩145,000 million on August 30, 2002. The Bank also sold an additional 5.03% of its investment in Alpha Capital Corp. to Sun Capital Inc. for ₩900 million on October 28, 2002.

The Bank sold its 87.00% ownership of Kookmin Investment Trust Management Co., Ltd. and 88.66% ownership of Kookmin Leasing Co., Ltd. to Morgan Stanley Private Equity, the M&A private funds led by Morgan Stanley Global Emerging Markets Inc. and affiliated funds, and Sun Capital Inc. on May 29, 2002 and December 27, 2002, respectively, and the Bank recognized losses on disposal of investment securities amounting to ₩10,752 million and ₩365 million, respectively.

Continued:

As of December 31, 2002 and 2001, the Bank holds the unexpired rights to claim from borrowers or guarantors for loans in accordance with the relevant law, which has already been written off, amounting to ₩3,750,402 million and ₩2,490,069 million, respectively, and that of Kookmin Credit Card Co., Ltd., a subsidiary of the Bank amounted to ₩1,016,772 million and ₩328,007 million, respectively.

As of December 31, 2002 and 2001, the Bank holds endorsed bills amounting to ₩9,285 million and ₩13,474 million, respectively.

In response to the generally unstable economic conditions, the Korean government and the private sector have been implementing structural reforms to historical business practices. Implementation of these reforms is progressing slowly, 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.

Certain financially troubled borrowers of the Consolidated Company including Korea Data System Co., Ltd. are experiencing a cash crisis or in the debt restructuring process under workout plans and other similar programs. As of December 31, 2002, in relation to such borrowers, total loans outstanding including guarantees and acceptances amounted to ₩668,219 million, and the related allowances and present value discount amounted to ₩184,641 million and ₩5,075 million, respectively.

The Consolidated Company may be either directly or indirectly affected by these general unstable economic conditions and the reform program described above. The accompanying non-consolidated financial statements reflect management's assessment of the impact to date of the economic situation on the financial position of the Consolidated Company. Actual results may differ materially from management's current assessment.

19. Capital Stock

As of December 31, 2002, the Bank has 1,000,000,000 common shares (par value: ₩5,000) authorized and 328,258,685 shares issued and Goldman Sachs Capital Koryo, L.P., ING Insurance International B.V., and the Korean government own 5.13%, 3.87%, and 9.33%, respectively, of the total issued shares. During the current period, Goldman Sachs Capital Koryo, L.P. sold the 14,470,000 common shares as ADSs. As a result, as of December 31, 2002, 37,728,214 common shares, equivalent to 11.49% of the total issued shares, are listed on the New York Stock Exchange as ADSs and are managed by Bank of New York, the 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% shareholders.

As a result of the business combination with H&CB, the shareholders of the Bank and H&CB, listed on the Register of Shareholders at October 31, 2001, received 179,775,233 new shares and 119,922,229 new shares of the Bank, respectively, at the exchange ratio of one new common share of the Bank for 1.688346 old shares of the Bank and 1 share of H&CB, respectively.

In accordance with the resolution approved during the general shareholders' meeting on March 22, 2002, the Bank approved a 6% stock dividend for shareholders listed on the Register of Shareholders at December 31, 2001, and issued 17,979,954 shares.

The Bank is authorized to issue to non-shareholders convertible bonds and bonds with stock purchase warrants up to total par value amounts of ₩2,500 billion and ₩500 billion, respectively. On November 25, 2002, Goldman Sachs Capital Koryo, L.P. converted \$200 million of its subordinated foreign currency convertible bonds, equivalent to ₩265,220 million, all of which had been outstanding as of December 31, 2001, into 10,581,269 shares of common stock at ₩22,124 per share. As a result the Bank recorded ₩180,919 million, net of stock issuance costs of ₩275 million, as paid-in capital in excess of par value in capital surplus (See Notes 12 and 20).

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

20. Capital Surplus

Capital surplus as of December 31, 2002 and 2001 comprises the following:

	In Millions of Won	
	2002	2001
Paid-in capital in excess of par value	₩ 5,287,708	₩ 5,107,251
Gain on business combination	397,669	397,669
Revaluation increment	177,229	177,229
Others	105,795	62,853
	<u>₩ 5,968,401</u>	<u>₩ 5,745,002</u>

The movements in capital surplus for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Increase ¹⁾	Decrease ²⁾	Ending Balance
Paid-in capital in excess of par value	₩ 5,107,251	₩ 181,194	₩ 737	₩ 5,287,708
Gain on business combination ³⁾	397,669	-	-	397,669
Revaluation increment	177,229	-	-	177,229
Others ⁴⁾	62,853	43,235	293	105,795
	<u>₩ 5,745,002</u>	<u>₩ 224,429</u>	<u>₩ 1,030</u>	<u>₩ 5,968,401</u>

¹⁾ The increase in paid-in capital in excess of par value is due to the amount in excess of par value in the conversion of foreign currency convertible bonds (See Notes 12 and 19). The increase in other capital surplus is due to the gains on the sales of treasury stock.

²⁾ The decreases in paid-in capital in excess of par value are stock issuance costs for stock dividends and conversion of convertible bonds (See Notes 12 and 19)

³⁾ The above amount of gain on business combination is due to the difference between the business combination consideration and the net asset value acquired from the merger with KLB on December 31, 1998.

⁴⁾ The increase of other capital surplus is due to the change of consolidation scope and disposal of treasury stock, and the amounts are ₩42,904 million and ₩331 million, respectively, and the decrease is due to the additional acquisition of the KB Credit Information Co., Ltd. stocks.

21. Retained Earnings

Retained earnings as of December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Legal reserves	₩ 545,740	₩ 413,740
Reserves for business rationalization	40,760	40,760
Special reserves	1,827,700	960,700
Other reserves	2,492	7,158
Unappropriated retained earnings	45,543	96,706
	<u>₩ 2,462,235</u>	<u>₩ 1,519,064</u>

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 an appropriate resolution of the Bank's stockholders.

Continued:

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.

As of December 31, 2002 and 2001, other reserves comprise the following:

	2002		2001	
	₩	-	₩	5,417
Reserves for overseas investment losses	₩	-	₩	5,417
Other reserves	₩	2,492	₩	1,741
	₩	<u>2,492</u>	₩	<u>7,158</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.

The movements in loss in excess of minority interest are as follows:

Subsidiaries	In Millions of Won			
	Beginning Balance	Increase	Decrease	Ending Balance
Kookmin Leasing Co., Ltd. ¹⁾	₩ 3,358	₩ -	₩ 3,358	₩ -
Joeun Industrial Co., Ltd. ¹⁾	1	-	1	-
	₩ <u>3,359</u>	₩ -	₩ <u>3,359</u>	₩ -

¹⁾ The decrease in this fiscal year is caused by excluding Kookmin Leasing Co., Ltd. and Joeun Industrial Co., Ltd. from the scope of consolidation.

22. Capital Adjustments

As of December 31, 2002 and 2001, capital adjustments comprise the following:

	2002		2001	
	₩	(148,973)	₩	(1,363)
Treasury stock	₩	(148,973)	₩	(1,363)
Unissued stock dividends	-	-	89,900	89,900
Unrealized gain on investment securities	178,046	178,046	90,716	90,716
Employee stock options (See Note 14)	397	397	-	-
Unrealized gain on derivatives (See Note 17)	1,347	1,347	-	-
	₩	<u>30,817</u>	₩	<u>205,274</u>

The movements in capital adjustments for the year ended December 31, 2002 are as follows:

	In Millions of Won			
	Beginning Balance	Increase	Decrease	Ending Balance
Treasury stock	₩ (1,363)	₩ (149,704)	₩ (2,094)	₩ (148,973)
Unissued stock dividends	89,900	-	89,900	-
Unrealized gain on investment securities	90,716	205,557	118,227	178,046
Employee stock options (See Note 14)	26,021	397	26,021	397
Unrealized gain on derivatives (See Note 17)	-	1,347	-	1,347
	₩ <u>205,274</u>	₩ <u>57,597</u>	₩ <u>232,054</u>	₩ <u>30,817</u>

The Bank, under the approval of the Board of Directors on July 26, 2002, established an Employee Stock Option Plan for the welfare of the employees and purchased 3,000,000 shares of treasury stock under the plan.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

23. Minority Interest

The changes in minority interests for the year ended December 31, 2002 are as follows:

In Millions of Won

Subsidiaries	Beginning Balance	Minority Interest Gains (Losses)	Increase	Decrease	Ending Balance
Kookmin Credit Card Co., Ltd.	₩ 281,761	₩ (67,128)	₩ 26,403	₩ 4,608	₩ 236,428
Kookmin Investment Co., Ltd.	3,030	(2,369)	34	612	83
Kookmin Data System Corp.	3	1	-	-	4
Kookmin Futures Co., Ltd.	5	-	-	-	5
Kookmin Bank Investment Trust					
Mgt. Co., Ltd. ¹⁾	5,023	-	-	5,023	-
Alpha Capita Co., Ltd. ¹⁾	3,772	-	-	3,772	-
KB Real Estate Trust Co., Ltd.	10,472	3,296	-	2,300	11,468
KB Credit Information Co., Ltd.	5,063	940	-	1,636	4,367
	<u>₩ 309,129</u>	<u>₩ (65,260)</u>	<u>₩ 26,437</u>	<u>₩ 17,951</u>	<u>₩ 252,355</u>

¹⁾ The decrease is due to the change in the scope of consolidation.

24. Other Non-interest Income (Expenses)

Other non-interest income (expenses) for the years ended December 31, 2002 and 2001 comprise the following:

In Millions of Won

	2002	2001
Other non-interest income:		
Realized gain on trading securities	₩ 155,802	₩ 196,916
Unrealized gain on trading securities	118,486	13,325
Gain on trust management	259,324	215,618
Reversal of allowance for losses on acceptances and guarantees	37,436	8,790
Others	26,600	11,242
	<u>₩ 597,648</u>	<u>₩ 445,891</u>
Other non-interest expenses:		
Realized loss on trading securities	₩ 61,262	₩ 147,566
Unrealized loss on trading securities	-	27,755
Contributions to special funds	150,780	88,027
Others	211,973	104,705
	<u>₩ 424,015</u>	<u>₩ 368,053</u>

25. General and Administrative Expenses

General and administrative expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Salaries and wages	₩ 1,242,815	₩ 625,156
Retirement benefits (Note 13)	114,023	124,853
Other employee benefits	290,932	385,376
Rent	62,692	27,516
Depreciation	365,073	183,492
Amortization	80,398	13,967
Taxes and dues	121,511	74,407
Advertising	174,566	73,676
Ordinary R&D	110,091	40,312
Fees and commissions	117,744	55,651
Others	297,630	160,444
	<u>₩ 2,977,475</u>	<u>₩ 1,764,850</u>

26. Non-Operating Income (Expenses)

Non-operating income (expenses) for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Non-operating income:		
Gain on disposal of fixed assets	₩ 1,968	₩ 2,694
Rent income	3,337	3,025
Gain on investment in associates (Note 5)	-	3,185
Realized gain on investment securities	392,980	137,513
Reversal of impairment loss on equity investment securities	15,318	617
Reversal of impairment loss on debt investment securities	12,380	7,663
Unrealized gain on investment in funds	2,022	85,519
Gain on sale of troubled loans	16,627	1,650
Others	319,290	90,299
	<u>₩ 763,922</u>	<u>₩ 332,165</u>
Non-operating expenses:		
Loss on disposal of fixed assets	₩ 8,369	₩ 20,269
Loss on investment in associates (Note 5)	17,484	-
Realized loss on investment securities	204,754	48,283
Impairment loss on equity investment securities (Note 5)	297,883	14,181
Impairment loss on debt investment securities (Note 5)	78,512	111,764
Loss on sale of troubled loans	114,271	163,955
Retirement benefits	48,775	38,925
Others	131,651	114,627
	<u>901,699</u>	<u>512,004</u>
Net amount	<u>₩ (137,777)</u>	<u>₩ (179,839)</u>

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

27. Income Tax Expenses

Income tax expenses for the years ended December 31, 2002 and 2001 comprise the following:

	In Millions of Won	
	2002	2001
Income taxes payable	₩ 630,187	₩ 437,006
Deferred income taxes from temporary differences	(44,833)	93,979
Deferred income taxes from loss carry-forwards ¹⁾	28,929	-
	614,283	530,985
Retained earnings adjustments	(1,899)	29,415
Income tax expenses	₩ 612,384	₩ 560,400

¹⁾ The above amounts of loss carry-forwards are from the prior period and all amounts are realized as of December 31, 2002.

For the years ended December 31, 2002 and 2001, the legal tax rates of the consolidated company are 29.7% and 30.8%, respectively. However, the effective tax rates for income before income tax expenses are 33.68% and 36.92%, respectively, due to tax adjustments during the same periods.

	2002	2001
Income before income tax expenses	₩ 1,818,432	₩ 1,517,832
Income taxes calculated by legal tax rates	₩ 540,074	₩ 467,492
Income taxes effects of		
Expenses not deductible for tax purposes	43,443	11,621
Income not assessable for tax purposes	(33,165)	(19,337)
Losses incurred by subsidiaries, not transferable to the parent company	62,032	100,624
Income tax expenses	₩ 612,384	₩ 560,400

Deferred income taxes adjusted by temporary differences in retained earnings for the years ended December 31, 2002 and 2001 are as follows:

	2002		2001	
	Temporary Difference	Income Tax Effect	Temporary Difference	Income Tax Effect
Loans converted to equity securities	₩ -	₩ -	₩ 90,948	₩ 27,012
Unrealized gains (losses) on investment in associates	(6,489)	(1,927)	8,093	2,403
Others	94	28	-	-
	₩ (6,395)	₩ (1,899)	₩ 99,041	₩ 29,415

Continued:

The significant changes in accumulated temporary differences and deferred income taxes for the year ended December 31, 2002 comprise the following:

						In Millions of Won
	Beginning Balance	Increase	Decrease	Ending Balance	Deferred Tax Assets (Liabilities)	
Allowance for loan losses	₩ 706,316	₩ 328,491	₩ 701,272	₩ 333,535	₩ 97,776	
Accrued interest	(491,721)	(421,749)	(491,721)	(421,749)	(125,216)	
Unrealized loss on securities	48,084	280,887	(360,351)	689,322	193,602	
Unrealized loss on derivatives	32,011	(99,269)	32,950	(100,208)	(29,761)	
Present value discounts	95,828	20,145	87,972	28,001	8,316	
Allowance for losses on guarantees and acceptances	43,823	17	41,536	2,304	684	
Accrued retirement benefits	3,104	28,245	30,160	1,189	328	
Reserve for overseas investment losses	(10,104)	1,125	(6,664)	(2,315)	(382)	
Depreciation	(1,423)	1,324	504	(603)	(180)	
Stock option compensation cost	26,021	10,116	26,021	10,116	3,004	
Others	43,090	78,866	15,565	106,391	39,841	
	<u>₩ 495,029</u>	<u>₩ 228,198</u>	<u>₩ 77,244</u>	<u>₩ 645,983</u>	<u>₩ 188,012</u>	

28. Earnings Per Share

Earnings per share ("EPS") and ordinary income per share for the years ended December 31, 2002 and 2001 are calculated as follows:

	In Millions of Won	
	2002	2001
Net income (in millions of Won)	₩ 1,271,308	₩ 836,875
Weighted average number of common shares outstanding	317,786,872	199,825,909
Earnings per share (in Won)	<u>₩ 4,001</u>	<u>₩ 4,188</u>

Weighted average number of common shares outstanding for the year ended December 31, 2002 is calculated as follows:

	Number of Shares	Days Outstanding	Weighted Average Number of Shares
Number of common shares outstanding-beginning balance	317,677,416	365	317,677,416
Treasury common stock - beginning balance	(31,548)	365	(31,548)
Treasury common stock - acquisition during the current period	(3,036,089)	114 ¹⁾	(951,890)
Treasury common stock - disposal during the current period	41,548	178 ¹⁾	20,272
Converted portion of convertible bonds	10,581,269	37	1,072,622
Weighted average number of common shares outstanding before dilution			<u>317,786,872</u>

¹⁾ As acquisitions and dispositions of treasury stocks occurred frequently during the year ended December 31, 2002, those transactions are recorded in aggregates and the weighted average number of common shares outstanding is utilized for the adjustments of the dates.

The employee stock options are not potential common shares since these are expected to be settled in cash. As of December 31, 2002, there are no potential common shares.

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

29. Related Party Transactions

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

Account	In Millions of Won					Transactions Relating to P/L
	Beginning Balance	Increase	Decrease	Ending Balance		
Kookmin Credit Card Co., Ltd.						
Loans	₩ 122,526	₩ 289,800	₩ 1,743	₩ 410,583	₩ 17,150	
Other assets	1,907	876	-	2,783	9,528	
Deposits	4,687	7,369	-	12,056	(131)	
Borrowings	-	-	-	-	(1,355)	
Other liabilities	18,334	97,271	1,426	114,179	(12,388)	
Commissions income	-	-	-	-	153,271	
Commissions expenses	-	-	-	-	(220)	
Kookmin Venture Capital Co., Ltd.						
Loans	96,000	-	96,000	-	4,115	
Deposits	29,811	-	13,669	16,142	(1,025)	
Kookmin Data System Co., Ltd.						
Deposits	3,676	3,227	-	6,903	(187)	
Other liabilities	879	-	-	879	-	
Kookmin Futures Co., Ltd.						
Due from banks	2,092	-	1,713	379	5	
Deposits	10,646	8,214	-	18,860	(567)	
Other liabilities	620	-	-	620	-	
Kookmin Bank Luxembourg S.A.						
Due from banks	-	48,337	-	48,337	148	
Loans	218,807	77,168	156,273	139,702	4,789	
Other assets	-	815	-	815	3,131	
Borrowings	-	24,008	-	24,008	(80)	
Other liabilities	10,058	1,174	155	11,077	(922)	
Kookmin Bank International (London) Ltd.						
Due from banks	-	24,490	-	24,490	70	
Loans	146,911	40,408	1,257	186,062	3,576	
Other assets	-	-	-	-	359	
Borrowings	7,670	72,757	-	80,427	(308)	
Other liabilities	1,932	11,313	-	13,245	(2,691)	
Kookmin Finance H.K. Ltd.						
Due from banks	2,030	4,288	-	6,318	22	
Loans	182,052	1,200	7,402	175,850	4,721	
Borrowings	-	-	-	-	(161)	
Finance debentures	6,463	-	6,463	-	(232)	
Other liabilities	-	5,424	-	5,424	-	
Kookmin Investment Trust Mgt. Co., Ltd.						
Deposits	25,326	-	23,978	1,348	(802)	
KB Real Estate Trust Co., Ltd.						
Loans	40,000	-	10,000	30,000	3,005	
Deposits	241	104,513	-	104,754	(4)	
Guarantee deposits received	1,797	-	15	1,782	-	
Guarantees and acceptances	53	-	53	-	-	
KB Credit Information Co., Ltd.						
Deposits	7,838	1,658	-	9,496	(444)	
Guarantee deposits received	1,566	1,225	-	2,791	176	
Accounts payable	1,584	1,013	-	2,597	-	
Commissions expenses	-	-	-	-	(26,894)	

30. Transactions with Financial Institutions

The assets and liabilities related to transactions with financial institutions for the year ended December 31, 2002 are as follows:

In Millions of Won

Accounts	Description	The Bank of Korea	Other Banks	Other Financial Institutions	Total
Cash and due from banks	Due from banks in Won	₩ 1,340,482	₩ 99,849	₩ 248,664	₩ 1,688,995
	Due from banks in foreign currencies	25,677	512,158	5,064	542,899
		<u>1,366,159</u>	<u>612,007</u>	<u>253,728</u>	<u>2,231,894</u>
Loans	Loans in Won	-	20,941	599,290	620,231
	Loans in foreign currencies	-	741,872	-	741,872
	Call loans	-	318,628	-	318,628
	Others	-	-	39,900	39,900
		<u>-</u>	<u>1,081,441</u>	<u>639,190</u>	<u>1,720,631</u>
Deposits	Deposits in Won	-	1,035,285	2,485,307	3,520,592
	Deposits in foreign currencies	-	66,003	-	66,003
		<u>-</u>	<u>1,101,288</u>	<u>2,485,307</u>	<u>3,586,595</u>
Borrowings	Borrowings in Won	671,854	2,460,871	3,381,211	6,513,936
	Borrowings in foreign currencies	-	2,548,737	592,014	3,140,751
	Others	37,493	-	305,966	343,459
		<u>709,347</u>	<u>5,009,608</u>	<u>4,279,191</u>	<u>9,998,146</u>
Debentures	Debentures in Won	-	336,500	334,900	671,400
	Debentures in foreign currencies	-	793,211	-	793,211
		<u>-</u>	<u>1,129,711</u>	<u>334,900</u>	<u>1,464,611</u>

31. Interest Bearing Assets and Liabilities

Assets and liabilities bearing interest income and interest expenses for the year ended December 31, 2002 are as follows:

In Millions of Won

Interest Bearing Assets	Average Balance	Interest Income	Average Yield (%)
Due from banks	₩ 1,573,864	₩ 56,412	3.58%
Trading securities	5,893,935	369,631	6.27%
Investment securities	19,344,213	2,059,765	10.65%
Loans	128,335,229	10,472,306	8.16%
	<u>₩ 155,147,241</u>	<u>₩ 12,958,114</u>	
Interest Bearing Liabilities	Average Balance	Interest Income	Average Yield (%)
Deposits	₩ 124,107,684	₩ 4,982,936	4.02%
Borrowings	15,528,108	735,982	4.74%
Debentures	17,591,021	1,236,299	7.03%
	<u>₩ 157,226,813</u>	<u>₩ 6,955,217</u>	

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

32. Business Combination with H&CB

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

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

33. Statement of Cash Flows

Cash and cash equivalents as of December 31, 2002 and 2001 as presented in the consolidated statement of cash flows comprise the following:

	2002	2001
		In Millions of Won
Cash on hand	₩ 2,393,118	₩ 2,553,714
Cash in foreign currencies	186,780	147,314
Due from banks in Won	1,688,995	4,840,695
Due from banks in foreign currencies	542,899	329,591
	4,811,792	7,871,314
Restricted deposits	1,604,544	4,401,794
	₩ 3,207,248	₩ 3,469,520

Major transactions that do not involve cash inflows and cash outflows for the years ended December 31, 2002 and 2001 are presented as follows:

	2002	2001
		In Millions of Won
Unrealized gains or losses on investment securities in consolidated capital adjustments	₩ 87,330	₩ (67,294)
Loan restructuring	122,043	183,432
Write-off of loans	1,528,327	1,092,672
Sale of non-performing loans	58,750	366,868
Conversion of convertible bonds	234,100	31,864
Extinguishments of preferred stock	-	200,000
Retained earnings appropriation for dividends	325,234	119,867
Issuance of stock dividends	89,900	-
Conversion of loans to equity securities	109,931	-
Transfer of assets, liabilities and equity due to the business combination with H&CB	-	66,392,324

34. Assets and Liabilities Denominated in Foreign Currencies

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

	Total Balances		Major Denomination Currencies ¹⁾			
	Millions of Won	Thousands of US Dollars	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen	
Assets						
Cash	₩ 186,780	\$ 155,598	\$ 63,914	€ 15,676	¥ 7,450,032	
Due from banks	542,899	452,265	404,009	6,769	6,062,988	
Trading securities	11,842	9,865	9,865	-	-	
Investment securities	1,269,839	1,057,847	907,910	7,045	4,789,879	
Loans	4,259,199	3,548,150	2,308,773	87,613	65,532,564	
Bills bought	756,300	630,040	588,877	25,336	840,286	
Advances for customers	2,223	1,852	1,852	-	-	
Call loans	195,741	163,063	154,700	4,000	50,000	
Liabilities						
Deposits	1,212,004	1,009,666	900,160	12,346	17,863,339	
Borrowings	3,140,751	2,616,420	2,134,304	94,893	46,007,284	
Due to Bank of Korea	37,493	31,234	31,234	-	-	
Call money	76,666	63,867	41,500	-	5,679,100	
Debentures	891,161	742,387	495,962	-	-	
Unsettled foreign payables	₩ 20,895	\$ 17,406	\$ 12,772	€ 939	¥ 138,208	

¹⁾ 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.

35. Values Added Calculation

Major accounts included in general and administrative expenses to measure values added for the years ended December 31, 2002 and 2001 are as follows:

	In Millions of Won	
	2002	2001
Salaries and wages	₩ 1,242,815	₩ 625,156
Retirement benefits	114,023	124,853
Other employee benefits	290,932	385,376
Rent	62,692	27,516
Depreciation	365,073	183,492
Amortization	80,398	13,967
Taxes and dues	121,511	74,407
	₩ 2,277,444	₩ 1,434,767

Notes to Consolidated Financial Statements

December 31, 2002 and 2001

36. Business Segments

The following tables show the distribution of the Consolidated Company's operations by business segment as of December 31, 2002:

In Millions of Won

	Financing and Insurance	Non-financing & Insurance	Adjustments for consolidation	Total
Cash and due from Banks	₩ 4,979,428	₩ 13,518	₩ (202,310)	₩ 4,790,636
Trading securities	9,333,854	-	(60,409)	9,273,445
Investment securities	28,635,431	5	(1,046,575)	27,588,861
Loans	137,130,579	873	(1,704,791)	135,426,661
Fixed assets	3,360,847	379	(1,068)	3,360,158
Other assets	7,020,162	3,515	(337,164)	6,686,513
Total Assets	₩190,460,301	₩ 18,290	₩ (3,352,317)	₩187,126,274
Deposits	₩127,165,548	₩ -	₩ (274,588)	₩126,890,960
Borrowings	17,204,165	-	(1,731,071)	15,473,094
Debentures	23,483,306	-	(32,960)	23,450,346
Other liabilities	11,221,922	3,871	(269,020)	10,956,773
Total Liabilities	179,074,941	3,871	(2,307,639)	176,771,173
Capital stock	2,281,164	8,000	(647,871)	1,641,293
Consolidated capital surplus	6,030,400	-	(61,999)	5,968,401
Consolidated retained earnings	2,949,621	6,419	(493,805)	2,462,235
Consolidated capital adjustments	124,175	-	(93,358)	30,817
Minority interest	-	-	252,355	252,355
Total Shareholder's Equity	11,385,360	14,419	(1,044,678)	10,355,101
Total Liabilities and Shareholders' Equity	₩190,460,301	₩ 18,290	₩ (3,352,317)	₩187,126,274
Operating revenue	₩ 19,670,746	₩ 43,935	₩ (851,084)	₩ 18,863,597
Interest revenue	13,176,242	645	(88,450)	13,088,437
Fees & commissions	2,750,723	43,290	(222,735)	2,571,278
Other revenue	3,743,781	-	(539,899)	3,203,882
Operating expenses	17,683,455	41,096	(817,163)	16,907,388
Interest expenses	7,074,256	-	(66,301)	7,007,955
Fees & commissions	1,026,672	28,325	(192,490)	862,507
Other expenses	6,589,581	10	(530,140)	6,059,451
General and administration	2,992,946	12,761	(28,232)	2,977,475
Operating income	1,987,291	2,839	(33,921)	1,956,209
Non-operating income	761,851	8	2,063	763,922
Non-operating expenses	1,083,293	164	(181,758)	901,699
Ordinary income	1,665,849	2,683	149,900	1,818,432
Extraordinary gain	-	-	-	-
Extraordinary loss	-	-	-	-
Income before income tax	1,665,849	2,683	149,900	1,818,432
Income tax expenses	598,429	674	13,281	612,384
Net income before consolidation adjustment	1,067,420	2,009	136,619	1,206,048
Minority interest in earnings of consolidated subsidiaries	-	-	65,260	65,260
Consolidated net income	₩ 1,067,420	₩ 2,009	₩ 201,879	₩ 1,271,308

Continued:

The following table shows the distribution of the Consolidated Company's operations by industry:

	In Millions of Won				
	Banking	Credit card	Others	Adjustments for Consolidation	Total
Operating revenue	₩ 15,584,501	₩ 3,134,577	₩ 995,603	₩ (851,084)	₩ 18,863,597
(Inter-company transaction)	(326,010)	(1,950)	(523,124)	851,084	-
	<u>15,258,491</u>	<u>3,132,627</u>	<u>472,479</u>	<u>-</u>	<u>18,863,597</u>
Operating Income	<u>2,265,765</u>	<u>(337,331)</u>	<u>61,696</u>	<u>(33,921)</u>	<u>1,956,209</u>
Cash and due from banks	4,599,356	103,505	290,085	(202,310)	4,790,636
Securities	30,940,750	3,112,127	3,916,412	(1,106,983)	36,862,306
Loans	126,730,561	9,256,060	1,144,831	(1,704,790)	135,426,662
Fixed assets	3,092,616	260,600	8,010	(1,069)	3,360,157
Other assets	6,135,558	649,077	239,043	(337,165)	6,686,513
Total assets	<u>₩171,498,841</u>	<u>₩ 13,381,369</u>	<u>₩ 5,598,381</u>	<u>₩ (3,352,317)</u>	<u>₩187,126,274</u>

The following table shows the distribution of the Consolidated Company's operations by geographical market:

	In Millions of Won				
	Domestic	Overseas	Adjustments for consolidation	Total	
Operating revenue	₩ 19,596,963	₩ 117,718	₩ (851,084)	₩ 18,863,597	
(Inter-company transactions)	(848,575)	(2,509)	851,084	-	
	<u>18,748,388</u>	<u>115,209</u>	<u>-</u>	<u>18,863,597</u>	
Operating Income	<u>1,949,839</u>	<u>40,291</u>	<u>(33,921)</u>	<u>1,956,209</u>	
Cash and due from banks	4,757,340	235,606	(202,310)	4,790,636	
Securities	37,719,432	249,857	(1,106,983)	36,862,306	
Loans	135,767,735	1,363,717	(1,704,790)	135,426,662	
Fixed assets	3,357,608	3,618	(1,069)	3,360,157	
Other assets	7,009,049	14,629	(337,165)	6,686,513	
Total assets	<u>₩188,611,164</u>	<u>₩ 1,867,427</u>	<u>₩ (3,352,317)</u>	<u>₩187,126,274</u>	

37. Reclassification of prior year financial statement presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2001 have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on previously reported net income or stockholders' equity.

Company Directory and Select Corporate Data

Company Directory and Select Corporate Data

Corporate Headquarters

9-1, 2-ga, Namdaemun-ro Jung-gu,
Seoul 100-703, Korea
Tel: (822) 317-2114
Swift Code: CZNBKRSSE
Telex: K23481, K26109
<http://www.kbstar.com>
Call Center: 1588-9999

Investor Relations Team

Kyusul Chol
General Manager
Tel: (822) 769-8341
Fax: (822) 769-8360
E-mail: kmbir@kookminbank.com

International Financing Team

Kiyoul Suh
General Manager
Tel: (822) 317-2291
Fax: (822) 317-2219

Number of Total Employees

18,373

Number of Branches

1,194

Overseas Offices

China

Kookmin Finance Hong Kong Ltd.
Youngsaeng Bak, Managing Director
19/F, Gloucester Tower
11 Pedder Street
Central Hong Kong, China
Tel: (852) 2530-3633/2521-3584
Fax: (852) 2869-6650/2840-0207
Swift Code: KHBHAKHH
Telex: 88126 DNBKHXX

Kookmin Bank

Guangzhou Representative Office
Room 3211, Office Bldg., CITIC Plaza 233
Tianhe N. Road Guangzhou, China
Tel: (86-20) 3877-0566
Fax: (86-20) 3877-0569

Japan

Kookmin Bank Tokyo Branch
Jaehyun Im, General Manager
Yurakucho Denki Bldg. -N, 14F, 1-7-1
Yurakucho, Chiyoda-ku
Tokyo 100 Japan
Tel: (81-3) 3201-3411
Fax: (81-3) 3201-3410
Swift Code: CZNBJPJT
Telex: 2224334CNBTKY

Luxembourg

Kookmin Bank Luxembourg S.A.
Jiwoo Park, Managing Director
11A, Boulevard Prince Henri
L-1724 Luxembourg
Tel: (352) 466-555
Fax: (352) 466-566
Swift Code: CZNBLULL
Telex: 60130CNBLU

New Zealand

Kookmin Bank Auckland Branch
Sangkyung An, General Manager
Level 19, ASB Bank Centre Cnr.
Albert & Wellesley Street PO BOX 7506
Auckland, New Zealand
Tel: (64-9) 366-1000
Fax: (64-9) 366-6608
Swift Code: CZNBNZ2A
Telex: NZ60214

United Kingdom

Kookmin Bank International Ltd.
Hyungjae Park, Managing Director
6th Floor, Princes Court, 7 Princes Street
London EC2R 8AQ, U.K.
Tel: (44-207) 710-8300
Fax: (44-207) 726-2808
Swift Code: CZNGBG2L
Telex: 8811971KBILDG

United States

Kookmin Bank New York Branch
Seijun Park, General Manager
565 Fifth Avenue, 24th Floor
New York, NY, 10017 U.S.A.
Tel: (1-212) 697-6100
Fax: (1-212) 697-1456
Swift Code: CZNBUS33
Telex: 49666583
ABA: 0260 1334 3

Subsidiaries

Kookmin Credit Card Co., Ltd.

Tel: (822) 3700-3068
Fax: (822) 3700-3069
Website: www.kookmincard.co.kr

KB Real Estate Trust Co. Ltd.,

Tel: (822) 2190-9800
Fax: (822) 2190-9803
Website: www.kbret.co.kr

KB Investment Co., Ltd.

Tel: (822) 545-5091
Fax: (822) 545-5092

KB Investment Trust Management Co., Ltd.

Tel: (822) 2167-8200
Fax: (822) 761-4224
Website: www.kbitm.co.kr

Kookmin Futures Co., Ltd.

Tel: (822) 3786-0800
Fax: (822) 3786-0890
Website: www.kbfutures.co.kr

Kookmin Data System Corporation

Tel: (822) 769-9500
Fax: (822) 769-9400
Website: www.kds.co.kr

KB Credit Information Co., Ltd.

Tel: (822) 768-2900
Fax: (822) 768-2907
Website: kbcici.co.kr

Shareholder Information

Major Shareholders	Bank of New York (As Depository): 11.49%	
	Government: 9.33%	
	Goldman Sachs: 5.13%	
	ING Bank N.V., Amsterdam: 3.87%	
General Meeting of Shareholders	March 21st, 2003	
	36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea 150-758	
Securities Listings	Korea Stock Exchange: 60000.KS (Common Stock)	
	New York Stock Exchange: KB (ADS)	
Investor Relations	36-3, Yoido-dong, Youngdeungpo-gu, Seoul, Korea 150-758	
	Tel: (822) 769-8341	
	Fax: (822) 769-8360	
	E-mail: kmbir@kookminbank.com	
Transfer Agent and Registrar	Common Stock	American Depository Shares (ADS)
	Kookmin Bank Securities	Bank of New York
	Securities Agency Business Team	ADR Division
	15-22 Yoido-dong, Youngdeungpo-gu,	101 Barclay Street 22nd Floor
	Seoul Korea	New York, NY 10286 U.S.A.
	Tel: (822) 3779-8094	Tel: (1-212) 815-8161
	Fax: (822) 3779-8095	Fax: (1-212) 571-3050
SEC Filings and Information Availability	<p>KB is fully committed to sharing company information and developments with the investing public on a timely basis. We encourage investors to contact Investor Relations via phone or e-mail. Investors can also visit our Web site at www.kbstar.com, and click on Investor Relations (available in both English and Korean).</p>	
Available Filings	<p>KB is subject to the periodic reporting requirements of the Securities Exchange Act of 1934, and, accordingly, files certain reports with the United States Securities and Exchange Commission. KB annually files Form 20-F and periodically files quarterly reports, annual reports, proxy statements and other material announcements on Form 6-K.</p>	

Forward-Looking Statement

The U.S. Securities and Exchange Commission (U.S. SEC) 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 are identified by words such as "will," "aim," "will continue," "anticipate," "estimate," "expect," "project," "intend," "plan," "believe" and words and terms of similar substance used in connection with any discussion of future company performance.

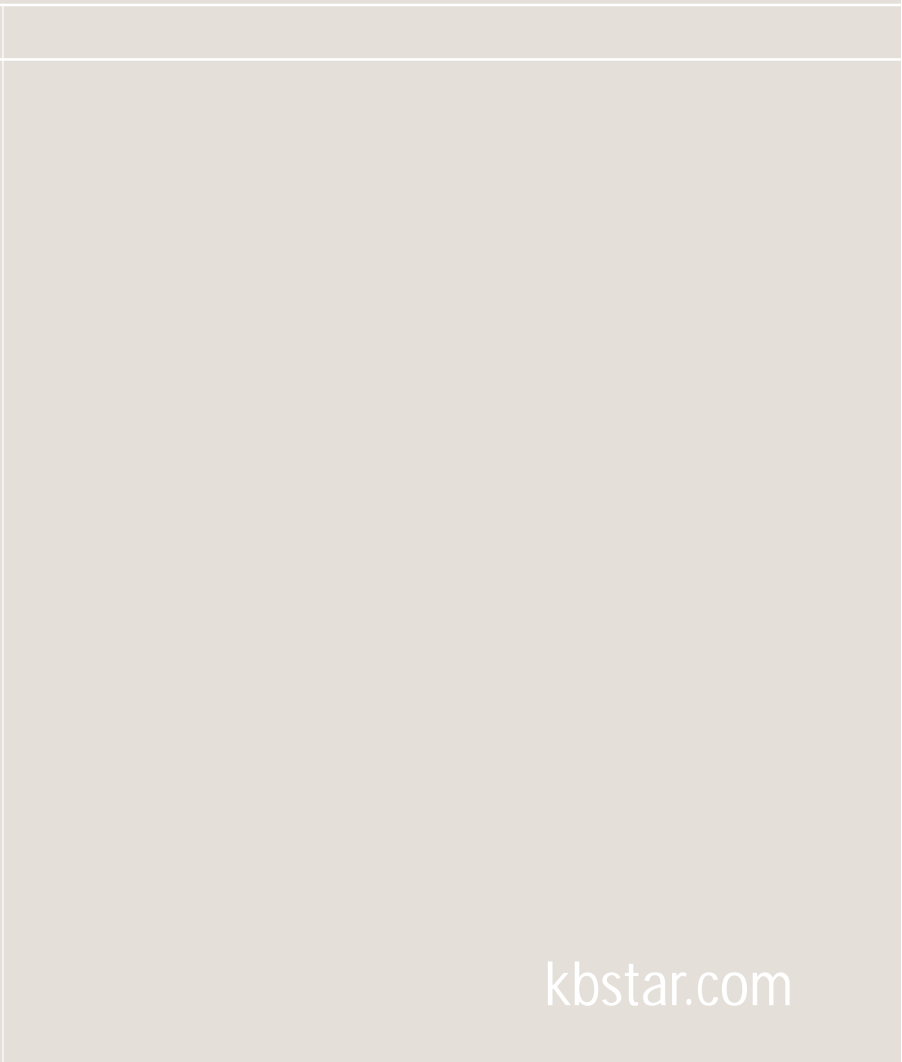
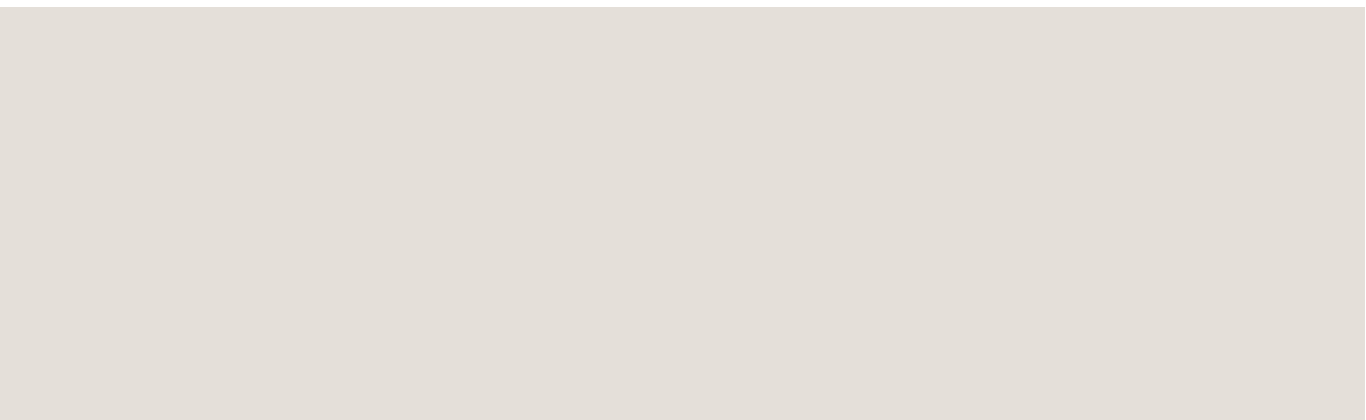
All forward-looking statements are management's present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

These factors include, but are not limited to:

- * general economic and political conditions in Korea;
- * the monetary and interest rate policies of Korea;
- * inflation, deflation;
- * the performance of the financial markets in Korea and globally;
- * changes in competition and the pricing environments in Korea;
- * our ability to successfully implement our strategies;
- * our growth and expansion;
- * future levels of non-performing loans;
- * the adequacy or allowance for credit and investment losses; and,
- * adverse market and regulatory conditions.

In addition to the factors above, a description of certain other risks and uncertainties can be found in the section captioned "Risk Factors" in our Annual Report on Form 20-F filed with the U.S. SEC.

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.



kbsstar.com

Kookmin Bank

9-1, 2-ga, Namdaemun-ro Jung-gu,
Seoul 100-703, Korea
Tel: (822) 769-7114 / 317-2114
Fax: (822) 769-8360
Swift Code: CZNBKRSE
Telex: K23481, K26109
<http://www.kbstar.com>