KOOKMIN BANK
Form 20-F
June 28, 2004
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As filed with the Securities and Exchange Commission on June 28, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea

(Address of principal executive offices)

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

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

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

None

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

None

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

306,362,493 shares of Common Stock, par value (Won)5,000 per share

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

x Yes ¨ No

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

¨ Item 17 x Item 18

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

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

¨ Yes ¨ No

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

Kookmin Bank has distributed printed copies of this Form 20-F to holders of its New York Stock Exchange-listed American Depository Shares in lieu of distributing copies of its annual report in compliance with Rule 203.01 of the New York Stock Exchange listing manual.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

As of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003, we have prepared financial information in accordance with United States generally accepted accounting principles, or U.S. GAAP. Unless indicated otherwise, the financial information in this document as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 has been prepared in accordance with U.S. GAAP.

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

In this annual report:

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

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

For your convenience, this document contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2003, which was (Won)1,192.0 = US$1.00.

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FORWARD-LOOKING STATEMENTS

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

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

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- cash flow projections;
- our exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated.

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

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

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

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Item 3. KEY INFORMATION

Item 3A. ***Selected Financial Data***

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Samil PricewaterhouseCoopers, independent registered public accounting firm.

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

Consolidated income statement data

	Year ended December 31,					
	1999	2000	2001 (1)	2002	2003	2003 (2)
	(in billions of Won, except per common share data)					(in millions of US$, except per common share data)
Interest and dividend income	(Won) 6,342	(Won) 7,263	(Won) 8,895	(Won) 13,450	(Won) 13,755	$ 11,539
Interest expense	4,307	4,505	5,317	6,734	6,462	5,420
Net interest income	2,035	2,758	3,578	6,716	7,293	6,119
Provision for loan losses, guarantees and acceptances	964	67	1,261	3,886	7,167	6,013
Non-interest income	1,370	927	1,765	3,098	2,914	2,444
Non-interest expense	1,499	1,614	2,354	4,387	4,406	3,696
Income tax expense (benefit)	381	746	647	597	(367)	(308)
Minority interest	6	81	84	(211)	(52)	(44)
Net (loss) income from discontinued operations after income taxes	(74)	(249)	8	97		
Cumulative effect of accounting change, net of tax			(13)			
Net income (loss)	(Won) 481	(Won) 928	(Won) 992	(Won) 1,252	(Won) (947)	$ (794)
Net income (loss) per common share (3):						
Net income (loss)-basic	(Won) 2,982	(Won) 4,931	(Won) 4,700	(Won) 3,939	(Won) (2,905)	$ (2.44)
Net income (loss)-diluted (4)	2,506	4,243	4,256	3,831	(2,905)	(2.44)
	161,188	188,107	211,037	317,787	326,000	326,000

Weighted average common shares outstanding-basic (in thousands of common shares)						
Weighted average common shares outstanding-diluted (in thousands of common shares)	192,765	219,797	234,541	328,107	326,000	326,000
Cash dividends paid per common share (3)(5)(6)	(Won) 338	(Won) 84	(Won) 844	(Won) 100	(Won) 1,000	$ 0.84

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

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) As discussed in Notes 1 and 30 to our consolidated financial statements, for the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB, (b) a 6% stock dividend approved on March 22, 2002.

(4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees. In prior periods, we had two additional categories of potentially dilutive common shares, which were shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.

(5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.

(6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 1999, 2000, 2002 or 2003.

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Consolidated balance sheet data

	As of December 31,					
	1999	2000	2001 (1)	2002	2003	2003 (2)
	(in billions of Won)					(in millions of US$)
Assets						
Cash and cash equivalents	(Won) 2,161	(Won) 1,701	(Won) 3,041	(Won) 3,328	(Won) 3,170	$ 2,660
Restricted cash	706	1,540	4,373	1,580	2,770	2,324
Interest-bearing deposits in other banks	629	1,587	592	564	563	472
Call loans and securities purchased under resale agreements	377	2,491	2,012	229	3,959	3,321
Trading assets	3,636	3,104	6,874	6,368	3,517	2,951
Investments (3)	16,293	17,702	26,231	24,223	22,427	18,815
Loans (net of allowance for loan losses of (Won)2,623 billion in 1999, (Won)2,394 billion in 2000, (Won)3,508 billion in 2001, (Won)5,195 billion in 2002 and (Won)5,772 billion in 2003)	42,351	57,041	117,452	140,756	140,213	117,628
Due from customers on acceptances	995	1,916	1,887	881	605	507
Premises and equipment, net	1,110	1,126	1,846	2,121	1,909	1,601
Accrued interest and dividends receivable	1,090	1,107	1,160	1,116	995	835
Security deposits	687	690	1,244	1,337	1,331	1,117
Goodwill and other intangible assets	211	582	743	631	818	686
Other assets	1,108	204	697	965	1,702	1,428
Total assets	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	$ 154,345
Liabilities and Stockholders Equity						
Deposits:						
Interest bearing	(Won) 40,079	(Won) 54,201	(Won) 110,895	(Won) 118,654	(Won) 128,144	$ 107,503
Non-interest bearing	2,659	1,982	4,141	3,745	3,460	2,903
Call money	1,333	581	2,701	306	225	189
Trading liabilities	298	718	287	625	762	640
Acceptances outstanding	995	1,916	1,887	881	605	507
Other borrowed funds	4,816	6,369	10,812	15,856	12,895	10,818
Accrued interest payable	2,105	2,311	4,617	4,463	3,938	3,304
Secured borrowings	423	1,468	5,501	7,864	8,207	6,885
Long-term debt	14,212	14,797	16,626	20,165	16,607	13,932
Other liabilities	1,853	2,482	2,742	2,634	2,552	2,141
Total liabilities	(Won) 68,773	(Won) 86,825	(Won) 160,209	(Won) 175,193	(Won) 177,395	$ 148,822
Minority interest	21	221	308	71	16	13
Common stock	1,498	1,498	1,588	1,641	1,682	1,411
Additional paid-in capital	1,141	1,242	4,960	5,146	5,393	4,525

Other	(79)	1,005	1,087	2,048	(507)	(426)
Stockholders equity	2,560	3,745	7,635	8,835	6,568	5,510
Total liabilities, minority interest and stockholders equity	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	(Won) 183,979	$ 154,345

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

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

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Profitability ratios and other data

	Year ended December 31,				
	(percentages)				
	1999	2000	2001	2002	2003
Net income as a percentage of:					
Average total assets (1)	0.68%	1.15%	0.92%	0.71%	(0.49)%
Average stockholders equity (1)	23.19	29.42	20.59	13.50	(7.17)
Dividend payout ratio (2)	9.83	1.61	15.06	1.80	
Net interest spread (3)	2.68	3.17	3.17	3.71	3.67
Net interest margin (4)	3.18	3.68	3.57	4.02	4.00
Efficiency ratio (5)	44.02	44.80	44.06	44.70	43.17
Cost-to-average assets ratio (6)	2.13	2.01	2.17	2.49	2.28
Won loans (gross) as a percentage of Won deposits	97.64	101.53	104.25	115.68	108.30
Total loans (gross) as a percentage of total deposits	105.17	105.72	105.09	119.14	110.83

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

Capital ratios

	As of December 31,				
	(percentages)				
	1999	2000	2001	2002 (2)	2003(2)
Total capital adequacy ratio (1)	11.38%	11.18%	10.23%	10.41%	10.00%
Tier I capital adequacy ratio (1)	7.26	6.82	7.09	6.62	6.22
Tier II capital adequacy ratio (1)	4.12	4.36	3.18	3.79	3.78
Average stockholders equity as a percentage of average total assets	2.95	3.92	4.45	5.26	6.79

(1) Our capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission. The computation is based on our consolidated financial statements prepared in accordance with Korean GAAP, which may differ in certain significant respects from U.S. GAAP. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy and Allowances.
(2) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66% and 6.28%, our Tier 2 capital ratio would have been 3.86% and 4.11% and our capital adequacy ratio would have been 10.47% and 10.09% as of December 31, 2002 and 2003, respectively.

Credit portfolio ratios and other data

	As of December 31,				
	(in billions of Won, except percentages)				
	1999	2000	2001	2002	2003
Total loans	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832	(Won) 145,858
Total non-performing loans (1)	2,134	1,762	3,376	3,912	4,116
Other impaired loans not included in non-performing loans	4,399	4,145	3,513	2,680	3,072
Total of non-performing loans and other impaired loans	6,533	5,907	6,889	6,592	7,188
Total allowance for loan losses	2,623	2,394	3,508	5,195	5,772
Non-performing loans as a percentage of total loans	4.74%	2.97%	2.79%	2.68%	2.82%
Non-performing loans as a percentage of total assets	2.99	1.94	2.01	2.13	2.24
Total of non-performing loans and other impaired loans as a percentage of total loans	14.54	9.94	5.70	4.52	4.93
Allowance for loan losses as a percentage of total loans	5.84	4.03	2.90	3.56	3.96

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

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Selected Statistical Information

Average Balance Sheets and Related Interest

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

	Year ended December 31,								
	2001 (1)(2)			2002 (1)			2003		
	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield	Average Balance (3)	Interest Income (4)(5)(6)	Average Yield
	(in billions of Won, except percentages)								
Assets									
Cash and interest-earning deposits in other banks	(Won) 949	(Won) 59	6.22%	(Won) 1,734	(Won) 61	3.52%	(Won) 1,179	(Won) 14	1.19%
Call loans and securities purchased under resale agreements	2,093	101	4.83	811	34	4.19	2,317	61	2.63
Trading securities	3,490	172	4.93	5,953	112	1.88	2,933	105	3.58
Investment securities (7)	21,152	1,540	7.28	25,090	1,419	5.66	29,029	1,513	5.21
Loans:									
Commercial and industrial	32,390	2,664	8.22	38,733	2,744	7.08	44,134	2,855	6.47
Construction loans	2,503	224	8.95	5,336	384	7.20	6,433	490	7.62
Other commercial	1,339	116	8.66	1,380	80	5.80	1,106	59	5.33
Mortgage and home equity	12,988	1,145	8.82	41,422	3,287	7.94	48,535	3,415	7.04
Other consumer	12,258	1,194	9.74	25,519	2,130	8.35	29,077	2,374	8.16
Credit cards (6)	9,938	1,615	16.25	19,840	3,166	15.96	16,498	2,846	17.25
Foreign commercial and industrial	1,120	65	5.80	1,255	33	2.63	1,079	23	2.13
	72,536	7,023	9.68	133,485	11,824	8.86	146,862	12,062	8.21
Total average interest earning assets	100,220	8,895	8.88	167,073	13,450	8.05	182,320	13,755	7.54

Cash and due from banks	2,804			4,697			5,461		
Foreign exchange spot contracts and derivatives	787			863			2,385		
Premises and equipment	1,118			2,033			2,207		
Due from customers on acceptance	1,202			322			701		
Loan loss allowance	(2,250)			(4,127)			(5,287)		
Assets of discontinued operations	909			679					
Other non-interest earning assets	3,529			4,837			5,488		
Total average non-interest earning assets	8,099			9,304			10,955		
Total average assets	(Won) 108,319	(Won) 8,895	8.21%	(Won) 176,377	(Won) 13,450	7.63%	(Won) 193,275	(Won) 13,755	7.12%

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	Year ended December 31,								
	2001 (1)(2)			2002 (1)			2003		
	Average Balance (3)	Interest Expense	Average Yield	Average Balance (3)	Interest Expense	Average Yield	Average Balance (3)	Interest Expense	Average Yield
	(in billions of Won, except percentages)								
Liabilities									
Deposits									
Demand deposits	(Won) 499	(Won) 8	1.60%	(Won) 598	(Won) 4	0.67%	(Won) 667	(Won) 2	0.30%
Certificates of deposit	2,023	123	6.08	2,120	102	4.81	4,068	181	4.45
Other time deposits	33,231	2,397	7.21	66,454	3,260	4.91	67,733	2,964	4.38
Savings deposits	23,665	446	1.88	35,206	413	1.17	38,368	348	0.91
Mutual installment deposits	7,238	563	7.78	12,235	764	6.24	11,946	642	5.37
Deposits (total)	66,656	3,537	5.31	116,613	4,543	3.90	122,782	4,137	3.37
Call money	960	39	4.06	1,803	71	3.94	1,802	65	3.61
Borrowings from the Bank of Korea	1,152	38	3.30	1,337	33	2.47	1,020	25	2.45
Other short-term borrowings	7,717	520	6.74	9,077	488	5.38	13,250	573	4.32
Secured borrowings	3,701	297	8.02	5,888	325	5.52	8,150	476	5.84
Long-term debt	12,934	886	6.85	20,260	1,274	6.29	19,678	1,186	6.03
Total average interest bearing liabilities	93,120	5,317	5.71%	154,978	6,734	4.35	166,682	6,462	3.88
Demand deposits	1,871			2,934			2,961		
Foreign exchange spot contracts and derivatives	751			752			2,384		
Acceptances to customers	1,202			536			883		
Liabilities of discontinued operations	1,197			795					
Other non-interest bearing liabilities	5,360			7,110			7,161		

Total average non-interest bearing liabilities	10,381			12,127			13,389		
Total average liabilities	103,501	5,317	5.14%	167,105	6,734	4.03	180,071	6,462	3.59
Stockholders equity	4,818			9,272			13,204		
Total liabilities and stockholders equity	(Won) 108,319	(Won) 5,317	4.91%	(Won) 176,377	(Won) 6,734	3.82%	(Won) 193,275	(Won) 6,462	3.34%

(1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.

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

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

(4) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.

(5) We do not invest in any tax-exempt securities.

(6) Interest income from credit cards includes principally cash advance fees of (Won)1,271 billion, (Won)1,719 billion and (Won)1,517 billion and interest on credit card loans of (Won)273 billion, (Won)830 billion and (Won)591 billion for the years ended December 31, 2001, 2002 and 2003, respectively.

(7) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders equity.

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

	Year ended December 31,		
	2001	2002	2003
		(percentages)	
Net interest spread (1)	3.17%	3.71%	3.67%
Net interest margin (2)	3.57	4.02	4.00
Average asset liability ratio (3)	107.62	107.80	109.38

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

Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 2002 compared to 2001 and 2003 compared to 2002. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	Fiscal 2002 vs. Fiscal 2001 Increase/(decrease) due to change in			Fiscal 2003 vs. Fiscal 2002 Increase/(decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest earning assets						
Cash and interest earning deposits in other banks	(Won) 35	(Won) (33)	(Won) 2	(Won) (15)	(Won) (32)	(Won) (47)
Call loans and securities purchased under resale agreements	(55)	(12)	(67)	44	(17)	27
Trading securities	81	(141)	(60)	(75)	68	(7)
Investment securities	258	(379)	(121)	211	(117)	94
Loans						
Commercial and industrial	479	(399)	80	362	(251)	111
Construction loans	211	(51)	160	83	23	106
Other commercial	3	(39)	(36)	(15)	(6)	(21)
Mortgage and home equity	2,267	(125)	2,142	526	(398)	128
Other consumer	1,128	(192)	936	291	(47)	244
Credit cards	1,581	(30)	1,551	(562)	242	(320)
Foreign commercial and industrial	7	(39)	(32)	(4)	(6)	(10)

Total interest income	5,995	(1,440)	4,555	846	(541)	305
Interest bearing liabilities						
Deposits						
Demand deposits	1	(5)	(4)	0	(2)	(2)
Certificates of deposit	6	(27)	(21)	87	(8)	79
Time deposits (other than certificates of deposit)	1,816	(953)	863	62	(358)	(296)
Savings deposits	171	(204)	(33)	35	(100)	(65)
Mutual installment deposits	329	(128)	201	(18)	(104)	(122)
Call money	33	(1)	32	0	(6)	(6)
Borrowings from the Bank of Korea	6	(11)	(5)	(8)	0	(8)
Other short-term borrowings	83	(115)	(32)	194	(109)	85
Secured borrowings	140	(112)	28	131	20	151
Long-term debt	466	(77)	389	(36)	(52)	(88)
Total interest expense	3,051	(1,633)	1,418	447	(719)	(272)
Total net interest income	(Won) 2,944	(Won) 193	(Won) 3,137	(Won) 399	(Won) 178	(Won) 577

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Exchange Rates

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2003, which was (Won)1,192.0 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 24, 2004, the noon buying rate was **(Won)**1,156.0 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	**High**	**Average (1)**	**Period-End**
1999	1,125.0	1,243.0	1,188.2	1,136.0
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004 (through June 24)	1,141.4	1,195.1	1,165.7	1,156.0
January 2004	1,172.0	1,195.1		
February	1,152.2	1,180.0		
March	1,146.7	1,181.0		
April	1,141.4	1,173.6		
May	1,165.0	1,191.0		
June (through June 24)	1,155.0	1,164.8		

Source: Federal Reserve Bank of New York.

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

Item 3B. ***Capitalization and Indebtedness***

Not Applicable

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

Not Applicable

Item 3D. ***Risk Factors***

Risks relating to our retail credit portfolio

We have been experiencing, and may continue to experience, increases in delinquencies in our retail loan portfolio, including, in particular, our credit card-related loans.

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,219 billion and (Won)8,321 billion, respectively, as of December 31, 2000 to (Won)81,204 billion and (Won)15,322 billion, respectively, as of December 31, 2003, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2003, our retail loans and credit card accounts represented 55.7% and 10.5% of our total lending, respectively. Within our consumer loan portfolio, the outstanding balance of other consumer loans, which unlike mortgage or home equity loans is often unsecured and therefore tends to carry a higher credit risk, has increased from (Won)8,151 billion, or

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33.2% of our total outstanding consumer loans, as of December 31, 2000 to (Won)28,727 billion, or 29.8% of our total outstanding consumer loans, as of December 31, 2003. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. However, after the third quarter of 2003, we were unable to sustain this growth due to increasing delinquencies, market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects.

The growth of our retail loan and credit card portfolios in recent years has been accompanied by increasing delinquencies, which has required us to increase our loan loss provisions and charge-offs and has adversely affected our financial condition and results of operations during and for the year ended December 31, 2003. Our non-performing retail loans (defined as those that are over 90 days past due) increased from (Won)166 billion as of December 31, 2000 to (Won)1,613 billion as of December 31, 2003, as a result of both the merger with H&CB and higher delinquencies. In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)227 billion as of December 31, 2000 to (Won)1,777 billion as of December 31, 2003. Our charge-offs, net of recoveries, increased from (Won)7 billion in 2000 to (Won)4,838 billion in 2003. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 13.7%, 7.8%, 20.6% and 21.6% as of December 31, 2000, 2001, 2002 and 2003, respectively. Credit card delinquencies may increase further in the future as a result of, among other things, adverse economic developments in Korea and the inability of Korean consumers to manage increased household debt, as reflected in the continuing practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We have discontinued the practice of providing substituted cash advances from January 2004. As of December 31, 2003, these loans and substituted cash advances outstanding amounted to (Won)1,774 billion and (Won)164 billion, respectively. Because these loans and cash advances are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans. Including all restructured loans and substituted cash advances, outstanding balances overdue by one day or more accounted for 27.4% of our credit card receivables (including credit card loans) as of December 31, 2003.

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

Our credit card operations have recently recorded losses, and we expect that these losses will continue, which could hurt our financial condition and results of operations.

In September 2003, we merged Kookmin Credit Card, our credit card subsidiary, into us in response to its liquidity problems stemming from the deteriorating asset quality of its credit card portfolio. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill. Our credit card operations have continued to record significant additional net losses after the merger through the fourth quarter of 2003.

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This has been primarily due to a continuing rise in delinquency levels and substantial charge-offs and loan loss provisions. Despite our efforts to improve our credit card asset quality and capital position, we expect that these losses will continue through the first half of 2004, which may adversely affect our overall financial condition and results of operations.

Our merger with our credit card subsidiary may result in labor unrest and in customer loss.

Following our merger with Kookmin Credit Card, Kookmin Credit Card s business operations were combined with that of BC Card. The combined credit card business group has operational autonomy with respect to the credit card business and was organized based on the operational platform of Kookmin Credit Card. Future decisions with respect to integration of these operations may adversely affect our credit card business. For example, in May 2003, the employees of Kookmin Credit Card began a strike demanding that the contemplated merger not go forward. We reached an agreement with the Kookmin Credit Card employees and they returned to work. In addition, unifying our two credit card brands could result in the loss of overlapping customers who prefer the availability of multiple cards.

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

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

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking). We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)41,540 billion as of December 31, 2003. During the period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,416 billion, representing a decrease in the non-performing loan ratio from 3.63% as of December 31, 2001 to 3.41% as of December 31, 2003. According to data compiled by the Financial Supervisory Service, the delinquency ratio for Won-currency loans by Korean banks to small- and medium-sized enterprises was 2.1% as of December 31, 2003. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such Won-currency loans on a Korean GAAP basis decreased from 3.3% as of December 31, 2001 to 3.2% as of December 31, 2003 but may rise in 2004 compared to 2002 and 2003. Accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we have decided to review loan applications more intensively with respect to small- and medium-sized enterprises in certain industry sectors, such as construction, hotels, restaurants and real estate.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, continued weakness in the Korean economy, as well as aggressive marketing and intense competition among banks to lend to this segment, have led and will continue to lead to a deterioration in the asset quality of our loans to this segment. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have a material adverse impact on our financial condition and results of operations. In addition, many small- and medium-sized enterprises have close business relationships with chaebols, primarily as suppliers. Any difficulties encountered by those chaebols would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

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

Risks relating to our strategy

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

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

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

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

Risks relating to competition

Competition in the Korean banking industry will intensify, and we may experience declining market share as a result.

We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have been targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to the asset quality deterioration in consumer and small- and medium-sized enterprise loans, and they are engaged in aggressive marketing campaigns and making significant investments in these segments. In particular, we have been experiencing increased competition in the credit card segment with the market entry of additional credit card issuers, including member companies of chaebols, foreign credit card companies and credit card subsidiaries of Korean banks. The

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profitability of our retail and credit card operations may further decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. Intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

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

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

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

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

Risks relating to our large corporate loan portfolio

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

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2003, 12 were to companies that were members of the 29 largest chaebols in Korea. As of that date, the total amount of our exposures to the 29 largest chaebols was (Won)6,024 billion, or 3.5% of our total exposures. If the credit quality of our exposures to chaebols declines, we could require substantial additional loan loss provisions, which would hurt our results of operations and financial condition.

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

As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering and Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-for-equity swap transactions, guarantees of overseas borrowings and injections of additional capital.

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

In March 2003, the principal creditor banks of SK Networks (formerly SK Global), a member company of the SK Group, commenced corporate restructuring procedures against SK Networks after the company announced that its financial statements understated its total debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion. These banks, including us, agreed to a temporary rollover of approximately (Won)6.6 trillion of SK Networks debt until December 31, 2007 and subsequently decided to put SK Networks into corporate restructuring. In October 2003, SK Networks foreign and domestic creditors agreed to a restructuring plan, which, among other things, allowed the foreign creditors to cash out their debts at a buyout rate of 43% of the face value of the outstanding debt owed to them. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan.

Several Ssangyong Group companies have been experiencing significant financial difficulties and liquidity problems. In particular, the principal creditor banks of each of Ssangyong Cement Industrial and Ssangyong Corporation, including us, commenced corporate restructuring procedures against these companies in November 2000 and February 2002, respectively.

Although no workouts or reorganization proceedings have begun against any other significant LG Group companies, LG Card, one of Korea s largest credit card companies and formerly a member company of the LG Group, has been experiencing significant liquidity and asset quality problems. See We have exposure to a number of Korean credit card companies, and recent and future difficulties faced by those companies may have an adverse impact on us.

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

	As of December 31, 2003				
	Outstanding Exposure (1)	**% of Total Exposure**	**% of Exposure Classified as Impaired Loans**	**Allowance for Loan Losses, Guarantees and Acceptances**	**Allowance for Loan Losses, Guarantees and Acceptances as a % of Exposure**
	(in billions of Won, except percentages)				
Former Hyundai Group (Total) (2)	(Won) 1,220	0.70%	2.78%	(Won) 43	3.52%
Hyundai Group (3)	223	0.13		16	7.17
Hyundai Engineering and Construction	139	0.08	23.74	7	5.04
Hyundai Heavy Industries	25	0.01	4.00		
Former Daewoo Group (Total) (4)	243	0.14	30.04	10	4.12
Daewoo International	34	0.02		1	2.94
Daewoo Electronics	24	0.01	70.83	1	4.17
Ssangyong Motors	89	0.05	62.92	7	7.87
SK Group (Total) (5)	210	0.12	42.38	7	3.33
SK Networks	99	0.06	89.90	2	2.02

Ssangyong Group (Total) (6)	60	0.03	100.00	12	20.00
Ssangyong Cement Industrial	60	0.03	100.00	12	20.00
LG Group (Total) (7)	1,093	0.63	44.56	143	13.08
LG Card(8)	543	0.31	89.69	127	23.39

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(1) Includes loans, debt and equity securities (including collateralized bond obligations) and guarantees and acceptances.
(2) Includes amounts from the former Hyundai Group, including Hyundai Engineering and Construction and Hyundai Heavy Industry.
(3) Recognized as the successor to the former Hyundai Group, which includes Hyundai Corporation and Hyundai Merchant Marine. Substantially all of the outstanding exposure of Hyundai Merchant Marine relates to ship financing to a special purpose company guaranteed by Hyundai Heavy Industries.
(4) Includes our exposures to former Daewoo Group companies.
(5) Includes SK Corporation, SK Networks, SK Telecom, SK Life Insurance, SK IMT, SK Shipping, SKC, SK Construction, SK Chemical and SK Securities.
(6) Includes Ssangyong Corporation, Ssangyong Cement Industrial, Ssangyong Construction and Namkwang Construction.
(7) Includes LG Electronics, LG International, LG Card and LG Chem.
(8) LG Card was disaffiliated from the LG Group in 2004.

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

We have exposure to a number of Korean credit card companies and recent and future difficulties faced by those companies may have an adverse impact on us.

As of December 31, 2003, we had aggregate exposures of (Won)849 billion to Korean credit card companies, which represented 0.5% of our total exposures. The Korean credit card industry has recently experienced increasing delinquency rates with respect to credit card receivables, and this increase in addition to declining demand for their securities have led to financial difficulties for many credit card companies.

The table below summarizes our exposures to Korean credit card companies as of December 31, 2003.

	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Impaired Loans	Allowance for Loan Losses, Guarantees and Acceptances	Allowance for Loan Losses, Guarantees and Acceptances as a % of Exposure
	(in billions of Won, except percentages)				
Samsung Card	(Won) 303	0.17%		(Won) 2	0.66
LG Card	543	0.31	89.69%	127	23.39
BC Card	3				
Woori Card (2)					
Lotte Card					

(1) Includes loans, debt and equity securities (including collateralized bond obligations), guarantees and acceptances and other exposures.
(2) Woori Credit Card merged with Woori Bank on March 31, 2004.

In addition to the above exposures, we have exposures to credit card companies in our guaranteed trust accounts.

The continuing deterioration of the Korean credit card industry has resulted in our reviewing the credit quality of credit card companies more diligently and more frequently and reclassifying the loans and other credits provided to such companies as necessary. For example, LG Card, one of Korea s largest credit card companies, has been experiencing significant liquidity and asset quality problems. In November 2003, we and other creditor banks of LG Card agreed to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to

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enable LG Card to resume cash operations. Our portion of this commitment was (Won)437 billion. Certain of LG Card s creditor banks also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corp. (the group holding company), LG Investment & Securities and LG Card as collateral to offset future losses of LG Card.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 26% ownership interest in LG Card and the other creditors would collectively acquire a 73% ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004, and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of (Won)953.9 billion for shares constituting 54.8% of the outstanding share capital of LG Card. The creditors also extended (Won)1.59 trillion of new loans to LG Card, which will subsequently be converted into equity. LG Group also funded an additional (Won)800 billion to LG Card in the first quarter of 2004 (in addition to a (Won)185 billion capital increase as a result of LG Card s issuance of new shares in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. Following the capital write-down, the creditors plan to exchange a further (Won)2,545.5 billion of indebtedness into equity of LG Card. In addition, as LG Card required additional funding, the LG Group and the Korea Development Bank provided (Won)375 billion and (Won)125 billion, respectively, in the first quarter of 2004. In accordance with the plan, in February 2004, we swapped (Won)156 billion of LG Card debt for equity, extended (Won)206 billion of new loans to LG Card, which also has been or will be converted into equity, and purchased (Won)153 billion of commercial paper from LG Card, the proceeds of which LG Card used to repay loans provided by our trust accounts. We also expect to swap an additional (Won)362 billion of LG Card debt (including the new loans provided in February 2004) for equity in the near future. After all such debt-to-equity conversions, we expect to own a 14.2% equity interest in LG Card and to have (Won)489 billion of additional exposure to LG Card.

As of December 31, 2003, our total exposure to LG Card was (Won)543 billion, including (Won)487 billion of loans and (Won)56 billion of debt securities. As of such date, all of our loans to LG Card were classified as precautionary and as impaired loans for U.S. GAAP purposes. As a result of the deteriorating financial condition of LG Card, we recorded provisions of (Won)126 billion and recognized securities impairment losses of (Won)20 billion in 2003 in respect of our exposures to LG Card. In addition, as of December 31, 2003, we had approximately (Won)171 billion of exposure to LG Card in our guaranteed trust accounts, with respect to which we may experience further losses.

Prior to our conversions of LG Card debt to equity in 2004, we have taken or expect to take significant additional loan loss provisions and have recognized or expect to recognize significant additional losses in respect of such debt, which will have an adverse impact on our results of operations for 2004. Furthermore, the value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card and other Korean credit card companies may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value. In addition, in the case of credit card companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

In addition, our investment portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by credit card companies. Accordingly, to the extent that the value of securities issued by credit card companies declines as a result of their financial difficulties or otherwise, we may experience losses on our investment securities.

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

As of December 31, 2003, our loans and guarantees to companies that were in workout, corporate restructuring, composition or corporate reorganization, including companies in the former Daewoo Group, former Hyundai Group and the Ssangyong Group, amounted to (Won)1,338 billion or 0.9% of our total loans and guarantees, of which (Won)459 billion or 34.3% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for losses on these loans and guarantees amounted to (Won)295 billion, or 22.0% of these loans and guarantees. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, in the event that any of our borrowers become subject to corporate restructuring procedures, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (as well as 75% or more of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

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

We have established allowances for losses on loans and guarantees to construction companies that we consider to have a greater likelihood of becoming non-performing. As of December 31, 2003, we had loans and guarantees outstanding to construction companies in the amount of (Won)7,425 billion, or 5.0% of our total loans and guarantees, of which (Won)406 billion or 5.5% was classified as substandard or below. As of the same date, our allowance for losses on these loans and guarantees amounted to (Won)315 billion, or 77.6% of the amount classified as substandard or below, and 4.2% of the total. Most of our exposure to construction companies consists of loans to small- and medium-sized enterprises. These allowances may not be sufficient to cover all future losses arising from our exposure to construction companies.

A large portion of our credit exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2003, our loans and guarantees to our 20 largest borrowers totaled (Won)3,826 billion and accounted for 2.6% of our total loans and guarantees. As of that date, our single largest corporate credit exposure was to LG Card, to which we had outstanding credit exposures (substantially all of which was in the form of loans) of (Won)487 billion, representing 0.3% of our total loans and guarantees. Any further deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

Other risks relating to our business

The Financial Supervisory Service is conducting an audit review of our audited annual financial statements prepared under Korean GAAP, which may result in changes to or a restatement of such financial statements as well as the financial information prepared under Korean GAAP contained in this annual report.

During the second quarter of 2004, the Financial Supervisory Service, which is our principal regulator in Korea, conducted a periodic inspection of our bank, which it generally performs once every two years. Following the conclusion of this periodic inspection, the Financial Supervisory Service notified us in June 2004 that it has decided to conduct an audit review with respect to our audited annual financial statements prepared under Korean GAAP, which we have publicly released. Depending on the results of this audit review, which has not yet been completed, the Financial Supervisory Service may require us to make changes to or restate our audited annual Korean GAAP financial statements and may also subject us to regulatory sanctions.

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If we are required to make changes to or restate our audited annual Korean GAAP financial statements, we may, depending on the nature of the changes or restatement, be required to make changes to or restate the financial information prepared under Korean GAAP contained in this annual report. Furthermore, if any such changes or restatement results in a material negative adjustment to our previously reported results of operations or financial condition under Korean GAAP for 2003 or any other period, the market price and liquidity of our common stock and ADSs may suffer.

We are generally subject to Korean corporate governance and disclosure standards, which may differ from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which may differ in some respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in corporate governance practices or disclosures that are perceived as less than satisfactory by investors in certain countries.

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

A substantial portion of our loans is secured by real estate, the values of which have fluctuated significantly in recent years. Due to, among other things, intense competition among banks and significantly increasing mortgage loans and other real estate-secured loans in recent years, our loan-to-value ratio, which is a measure of the amount of a secured loan to the assessed value of the collateral securing the loan, has increased. Although it is our general policy to lend up to 50% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures adopted by the Korean government in 2003 to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectable amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may result in a decrease in the value realized with respect to such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to losses.

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

As of December 31, 2003, we held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank

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of Korea) with a total book value of (Won)4,669 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur losses.

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

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

If, at any time, the income from our guaranteed trust accounts is not sufficient to pay any guaranteed amount, we will have to cover the shortfall first from the special reserves maintained in these trust accounts, then from our fees from the relevant trust accounts and finally from funds transferred from our general banking operations. As of December 31, 2003, we had (Won)3,262 billion in trust account assets for which we provided guarantees of both the principal and interest or of the principal alone. Substantially all of these guarantees were principal-only guarantees. Transfers from general banking operations to cover deficiencies in guaranteed trust accounts amounted to (Won)31 billion in 2001. In 2002 and 2003, there were no such transfers. We may be required to make additional transfers from our general banking operations to cover shortfalls in our guaranteed trust accounts in the future. Such transfers may adversely impact our results of operations.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and materially and adversely affect our business.

We may experience disruptions, delays and other difficulties from our information technology systems.

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers confidence in us.

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

Neither we nor our subsidiaries are required to, and we and our subsidiaries do not, prepare interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of provisions and loan loss allowance. See Item 5B. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our provision and allowance levels reflected under Korean GAAP in our results as of the end of and for 1999, 2000, 2001, 2002 and 2003 may differ significantly from comparable figures under U.S. GAAP for these and future periods.

Risks relating to liquidity and capital management

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

Interest rates in Korea have fluctuated significantly in recent years. In 2000 and 2001, interest rates declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates stabilized at these low levels in 2002 and 2003. As of December 31, 2003, approximately 87.9% of the debt securities we held paid interest at a fixed rate. All else being equal, an increase in interest rates would lead to a decline in the value of the debt securities in our portfolio. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and retail borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our retail and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our retail and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

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

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2003, approximately 91.1% of our deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of our customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we estimate that, setting aside the effects of the merger, the recent increase in our short-term deposits is attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of our short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yield investment opportunities emerge. In that event, our liquidity position could be adversely affected. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

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

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum Tier I capital adequacy ratio of 4.0% and a combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. As of December 31, 2003, our Tier I capital adequacy ratio was 6.22% and our combined Tier I and Tier II capital adequacy ratio was 10.00%, which

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exceeded the minimum levels required by both the Financial Supervisory Commission. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, including as a result of continued deterioration in the asset quality of our retail loans (including credit card balances) and loans to small- and medium-sized enterprises, or if we are not able to deploy our funding into suitably low-risk assets.

If our capital adequacy ratio deteriorates, we may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. We may not be able to obtain additional capital on favorable terms, or at all. Our ability to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. To the extent that we fail to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our license. For a description of the capital adequacy requirements of the Financial Supervisory Commission, see Item 5A. Operating Results Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Capital Adequacy.

Under the new Basel Capital Accord, which is scheduled to take effect after December 2006, credit exposures to small- and medium-sized enterprises with no external ratings will be allocated a risk weighting of 150% instead of the current 100%. This would increase our capital requirements for small- and medium-sized enterprise lending unless we are able to obtain approval for our internal rating models from the Financial Supervisory Service. Although we expect to continue our efforts to improve the accuracy of our internal rating models, we may not be able to obtain the Financial Supervisory Service s approval with respect to such models. If such approval is not obtained, we may have to increase our capital to support our small- and medium-sized enterprise lending.

Risks relating to government regulation and policy

Government regulation of retail lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our retail banking operations.

In light of concerns regarding the potential risks of excessive retail lending, particularly mortgage and home equity lending, the Korean government has recently adopted more stringent regulations with respect to retail lending by Korean banks. The Financial Supervisory Commission increased the minimum loan loss reserve requirements applicable to retail loans with effect from May 2002. In addition, in an effort to curtail the growth in property speculation caused by increased levels of mortgage and home equity lending, the Financial Supervisory Commission and Financial Supervisory Service adopted measures during the second half of 2002 that reduced our ability to provide certain higher-risk mortgage and home equity loans.

Furthermore, in November 2002, the Financial Supervisory Commission and Financial Supervisory Service announced new, more stringent guidelines applicable to mortgage and home equity lending by Korean banks. More recently, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which include:

- building more residential apartments and houses;

- enforcing more stringent supervision of property speculation; and

- increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary.

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These regulations and measures, as well as any similar regulations that the Korean government may adopt in the future, may have the effect of constraining the growth and profitability of our retail banking operations, especially in the area of mortgage and home equity lending. Furthermore, these regulations and measures may result in substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity lending. See Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

Government regulation of our credit card operations has increased significantly.

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

In addition, from mid-2002 through early 2003, the Korean government enacted a number of changes to the laws governing the credit card industry. In particular, the Financial Supervisory Commission and the Financial Supervisory Service have increased minimum required provisioning levels applicable to credit card receivables, required the reduction in lending volumes for certain types of lending, increased reserve requirements and minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also adopted a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as the procedures governing which persons may receive credit cards.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March, September and October 2003 the Korean government announced several measures intended to support the credit card industry. These included the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card companies, such as restrictions on cash advance fee rates, and on the level of cash advance and card loan receivables as a percentage of total receivables. However, we believe that these relief measures are likely to be temporary, and that the overall effect of the Korean government s recent regulatory initiatives has been, and may continue to be, to constrain the growth and profitability of our credit card operations. Since October 2003, the Financial Supervisory Commission announced that it would:

- revise the calculation formula for capital adequacy ratios for each credit card company in a manner that would increase the proportion of managed assets composing risk-weighted assets;
- change its standards for reporting credit card delinquency ratios to require the inclusion of restructured loans and substituted cash advances in the calculation of such ratios; and
- assign to each credit card company a target delinquency ratio that it is required to satisfy on a semi-annual basis until the end of 2006 and require each credit card company to enter into a memorandum of understanding with the Financial Supervisory Commission by the end of November 2003 with respect to each credit card company s action plan to meet its assigned target delinquency ratio.

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Currently, the Financial Supervisory Commission has not implemented any of these announced changes. If the announced changes are adopted, the delinquency ratio reported by credit card companies will increase significantly, which may heighten public concern regarding their financial health and thereby exacerbate their liquidity problems. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry, which in turn may adversely affect our credit card operations.

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

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

The National Housing Fund is a government fund that provides housing loans to low-income households and construction loans to fund projects to build small-sized housing. From 1981 until 2001, H&CB solely managed the operations of the National Housing Fund and received a monthly management fee. We have received that fee since the merger with H&CB took place. In 2003, we received total management fees of (Won)175 billion.

In January 2000, the relevant law that had specified H&CB as the institution that manages the National Housing Fund was amended to provide that the Ministry of Construction and Transportation is to designate the institution that will perform this function. In November 2002, the ministry designated two other financial institutions as managers, together with us, of the National Housing Fund with a view to diversifying its management. In February 2003, the ministry changed the basis of calculating fees related to the National Housing Fund. If the ministry decides to lower existing management fees or to designate additional institutions to manage the National Housing Fund, our fee income from managing it will be reduced compared to current levels, which in turn may have a further adverse effect on our results of operations.

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

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

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

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

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

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

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

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

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

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

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

Risks relating to Korea

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

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between Korea and North Korea has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and the price of our common stock and ADSs.

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Adverse economic and financial developments in Korea may have an adverse effect on us.

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

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

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

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

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

Ongoing significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect our results of operations.

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. For example, in the past the Korean government regulated, among other things, lending rates and deposit rates for banks. Regulations also dictated the extent of competition by restricting new entrants and the growth of existing financial institutions, including the opening of new branches. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on

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current account deposits) and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. At the same time, the Korean government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernize the industry and to address specific social and economic issues. Most recently, the Korean government has revised the regulations relating to credit cards and household lending as part of its effort to control the potential risks of excessive consumer lending. Continuing regulatory changes in the financial industry will require us to modify our business operations and may adversely affect our results of operations.

Labor unrest in Korea may adversely affect our operations.

The economic downturn in Korea in 1997 and 1998 and the increase in the number of corporate reorganizations and bankruptcies thereafter caused layoffs and increasing unemployment in Korea, and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% as of December 31, 2000 to 3.1% as of December 31, 2002, but increased to 3.40% as of December 31, 2003. A continued increase in unemployment and continuing or future labor unrest could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial conditions of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. These developments would likely have an adverse effect on our financial condition and results of operations.

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

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. Furthermore, in December 2003, we invested (Won)71 billion for a 25% interest in Sorak Financial Holdings, which acquired a 51% interest in Bank Internasional Indonesia, and we may make similar investments outside Korea in the future. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets in which we may invest, or that such events will not have an adverse effect on our business or the price of our common stock and ADSs.

Risks relating to our common stock and ADSs

Ownership of our common stock is restricted under Korean law.

Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a nationwide bank such as us, with the exception of certain stockholders that are non-financial group companies, whose applicable limit is 4.0%. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies are exempt from this limit, and investors may also exceed the 10.0% limit upon filing a report with, or approval by, the Financial Supervisory Commission. See Item 4B. Supervision and Regulation Principal Regulations Applicable to Banks Restrictions and Bank Ownership. To the extent that the total number of shares of our common stock (including those represented by ADSs) that a holder and its affiliates own together exceeds that limit, that holder will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order that holder to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to (Won)50 million and/or up to 0.03% of the book value of such shares per day until the date of disposal.

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

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

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

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

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

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

such common stock will not be accepted for deposit unless

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

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

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

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

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

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

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

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

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

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

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

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

Our common stock is listed on the Korea Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Korea Stock Exchange. The Korea Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Korea Stock Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. On June 24, 2004, the KOSPI closed at 763.13. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has promoted mergers to reduce what it considers excess capacity in a particular industry and has also encouraged private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

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

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency, exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 9C. Markets.

Other Risks

A holder of our ADSs may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

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

History of the former Kookmin Bank

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

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

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

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

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. As a result of subsequent sales of our common stock (including common stock obtained upon conversion of the convertible bonds) by Goldman Sachs Capital Koryo in June 2002 and November 2003, Goldman Sachs Koryo beneficially owned 1.14% of our outstanding common stock as of December 31, 2003. See Item 7B. Related Party Transactions.

History of H&CB

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

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

In July 1999, H&CB entered into an investment agreement with certain affiliates of the ING Groep N.V., a leading global financial services group. Through ING Insurance International B.V. and ING International Financial Holdings, ING Groep N.V. invested (Won)332 billion to acquire 9,914,777 new common shares of H&CB representing 9.99999% of H&CB s outstanding common shares. As of December 31, 2003, ING Groep N.V. beneficially owned 3.78% of our outstanding common stock.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. In August, 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;

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ING Groep N.V. is required to maintain its current 3.78% beneficial ownership of shares of our common stock; and

each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management Co., Ltd. (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

For more details regarding our relationship with ING Groep N.V., see Item 4B. Business Overview Other Businesses Bancassurance, Item 7B. Related Party Transactions and Item 10C. Material Contracts.

The Merger of the former Kookmin Bank and H&CB

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

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

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

A key goal of the merger between the former Kookmin Bank and H&CB was to combine the strengths of each bank to create a premier world-class financial institution. In furtherance of this goal, we have integrated the operations of the two predecessor banks in order to build a solid base for future growth

The Merger with Kookmin Credit Card

On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card, previously a 75% owned and consolidated subsidiary. On July 23, 2003, our board approved the merger with Kookmin Credit Card and, on September 5, 2003, the merger was approved by the shareholders of Kookmin Credit Card. On September 30, 2003, we merged with Kookmin Credit Card.

The merger was effected by the issuance of 8,120,431 shares of our common stock, and the former minority shareholders of Kookmin Credit Card received .442983 shares of our common stock for every one share of

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Kookmin Credit Card common stock that they owned and cash instead of fractional shares that they would have otherwise been entitled to receive in the merger. Immediately following the merger, former shareholders of Kookmin Credit Card common stock, other than us, owned approximately 2.4% of our outstanding common stock. The acquisition of minority interest was accounted for under the purchase method of accounting, and we stepped up the assets and liabilities acquired to their fair values at the date of acquisition. The excess of fair value of purchase consideration over the fair value of net assets acquired was recognized as goodwill.

The goals of this merger were to:

- alleviate the difficulties that Kookmin Credit Card was experiencing with respect to its liquidity and capital adequacy;
- maximize management efficiency and further enhance our credit card business;
- assist us in developing a leading credit card business in Korea;
- enable us to effectively cross-sell our financial products by integrating our database; and
- develop and launch products and services that integrated our credit card and banking businesses.

Through establishing a unified credit card business, we believe that we can further enhance this business by strengthening our risk management and maximizing our operational efficiency. We believe this merger will enable us to strengthen our competitiveness in the credit card business by enabling us to flexibly respond to the dynamics of the changing market environment, efficiently allocate our resources and reduce costs.

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

Business

We are the largest commercial bank in Korea. As of December 31, 2003, we had total assets of (Won)183,979 billion and total deposits of (Won)131,604 billion. On the asset side, we provide credit and related financial services to individuals and small- and medium-sized enterprises and, to a lesser extent, to large corporate customers. On the deposit side, we provide a full range of deposit products and related services to both individuals and enterprises of all sizes.

By their nature, our core consumer and small- and medium-sized enterprise operations place a high premium on customer access and convenience. Our combined network of 1,136 branches as of December 31, 2003, the most extensive in Korea, provides a solid foundation for our business and is a major source of our competitive strength. This network provides us with a large, stable and cost effective funding source, enables us to provide our customers convenient access and gives us the ability to provide the customer attention and service essential to conducting our business, particularly in an increasingly competitive environment. Our branch network is further enhanced by automated banking machines and fixed-line, mobile telephone and Internet banking. As of December 31, 2003, we had a customer base of over 24 million retail customers, which represented approximately one-half of the Korean population. Of the population in Korea between the ages of 20 and 40, approximately two-thirds have accounts with us. As of December 31, 2003, we also had over 154,000 small- and medium-sized enterprise customers.

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The following table sets forth the principal components of our lending business as of the dates indicated. As of December 31, 2003 retail loans, credit card loans and credit card receivables accounted for 66.2% of our total loan portfolio.

	As of December 31,					
	2001		2002		2003	
	(in billions of Won, except percentages)					
Retail						
Mortgage and home equity (1)	(Won) 37,194	30.8%	(Won) 46,195	31.7%	(Won) 52,477	36.0%
Other consumer (2)	23,312	19.3	28,066	19.2	28,727	19.7
Total retail	60,506	50.1	74,261	50.9	81,204	55.7
Credit card	16,751	13.9	22,643	15.5	15,322	10.5
Corporate	42,491	35.1	47,502	32.6	47,899	32.8
Capital markets activities and international banking	1,146	0.9	1,426	1.0	1,433	1.0
Total loans	(Won) 120,894	100.0%	(Won) 145,832	100.0%	(Won) 145,858	100.0%

(1) Includes (Won)1,619 billion, (Won)1,160 billion and (Won)1,162 billion of overdraft loans secured by real estate in connection with home equity loans as of December 31, 2001, 2002 and 2003, respectively.

(2) Includes (Won)5,612 billion, (Won)9,211 billion and (Won)10,038 billion of overdraft loans as of December 31, 2001, 2002 and 2003, respectively.

We provide a full range of personal lending products and retail banking services to individual customers, including mortgage loans. We are the largest private sector mortgage lender in Korea and our mortgage loan portfolio in terms of aggregate loan value accounted for a 75.8% share of the domestic commercial banking market as of December 31, 2003. We are also a manager of the National Housing Fund, a government fund that provides housing loans to low income households and loans to construction companies to build small-sized housing for low income households.

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

The volume of our loans to small- and medium-sized enterprises requires a customer-oriented approach that is facilitated by our large and geographically diverse branch network. Our lending to this segment increased substantially during 2003.

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

Since the former Kookmin Bank initiated the issuance of domestic credit cards in 1980, we have seen our credit card business grow rapidly, particularly in 2001 and 2002 as the nationwide trend towards credit card use accelerated. As of December 31, 2003, we had more than 11.1 million holders of Kookmin Card, and there were more than 3.9 million holders of our BC Card. Some of our cardholders hold both our BC Card and our Kookmin Card. Our credit card balances (including card loans) have increased from (Won)8,321 billion as of December 31, 2000 to (Won)15,322 billion as of December 31, 2003, as a result of both the merger with H&CB and significant organic growth. The rate of increase in balances relating to our credit card business declined significantly during 2003 and our loan loss provisioning increased substantially as a result of increases in delinquency rates, which have continued during the first quarter of 2004. See Item 3D. Risk Factors Risks relating to our retail credit portfolio and Item 4A. History and Development of the Company The Merger with Kookmin Credit Card.

Our legal and commercial name is Kookmin Bank. Our registered office and principal executive offices are located at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul, Korea 100-703. Our telephone number is 822-2073-8341. Our agent in the United States, Kookmin Bank, New York Branch, is located at 565 Fifth Avenue, 24th Floor, New York, NY 10017. Its telephone number is (212) 697-6100.

Strategy

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

The key elements of our strategy are as follows:

Enhance our leading market position and leverage our core businesses

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

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

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

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

Leveraging small- and medium-sized enterprise customer relationships. We had a network of over 154,000 small- and medium-sized enterprise customers as of December 31, 2003. We intend to leverage these relationships by expanding the range of lending, deposit and money management products we offer to the customers. This will allow us to effectively increase the types and amounts of products and services we offer to small- and medium-sized enterprises as they expand their businesses.

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

Our small- and medium-sized enterprise banking business has traditionally been and will remain one of our core businesses. In order to achieve our goal of enhancing our profitability, especially in light of the recent slowdown in retail and credit card lending volume, we have identified the small- and medium-sized enterprise

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customer segment, including SOHO customers, as one of our sources for growth. Lending to these customers generally carries higher rates of interest. In addition, we believe that, as the economy recovers, the SOHO customer base will expand significantly and provide us with an increasing opportunity to enhance our profitability. To increase our lending to the small- and medium-sized enterprise market, we have:

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

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

- been operating a relationship management system to provide targeted customer service to small- and medium-sized enterprises. As of December 31, 2003, we had 120 corporate banking branches and 18 relationship management teams located at various other retail branches. The corporate banking branches and relationship management teams market our products and review and approve smaller loans that pose less credit risks; and

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

Focus on personal financial services

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

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

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

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

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

Develop corporate businesses that generate fee income

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

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

As of December 31, 2003, we had the largest number of retail customers and retail deposits among Korean commercial banks. We believe that this is due to our extensive nationwide network of branches, which is the largest among Korean commercial banks, and the merger with H&CB, together with our long history of development and our resulting know-how and expertise. We plan to strengthen and enhance our deposit gathering capability by:

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

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

Strengthen internal risk management capabilities

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

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

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

Branch Network

As of December 31, 2003, we had 1,136 branches and sub-branches in Korea, which were the largest number of branches among Korean commercial banks. In Korea, retail transactions are generally conducted in cash, although credit card use is increasing, and conventional checking accounts are not offered or used as widely as in other countries. An extensive branch network is important to attracting and maintaining retail customers, who use branches extensively and value convenience. We believe that our extensive branch network in Korea and retail customer base provide us with a source of stable and relatively low cost funding. Approximately 42% of our branches and sub- branches are located in Seoul, and more than 24% of our branches are located in the six next largest cities. The following table presents the geographical distribution of our branch network in Korea as of December 31, 2003.

Area	Number of branches	Percentage
Seoul	476	42%
Six largest cities (other than Seoul)	273	24
Other	387	34
Total	1,136	100%

In addition, we have continued to implement the specialization of branch functions. As of December 31, 2003, we had established over 15 additional branches that exclusively handle corporate transactions, by converting certain existing branches, with a focus on converting overlapping branches resulting from the merger between the former Kookmin Bank and H&CB, and constructing certain new branches. Of our branch network, 120 branches handle corporate transactions exclusively and are dedicated to providing comprehensive services to our corporate customers.

In order to support our branch network, we have established an extensive network of automated banking machines, which are located in branches and in unmanned outlets known as Autobanks. These automated banking machines consist of ATMs, cash dispensers and passbook printers. As of December 31, 2003, we had 8,037 ATMs, 1,253 cash dispensers and 645 passbook printers.

We have actively promoted the use of these distribution outlets in order to provide convenient service to customers, as well as to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. We believe that use of our automated banking machines has increased in recent years. In 2003, automated banking machine transactions accounted for approximately 79.3% of our deposit and withdrawal transactions for amounts less than (Won)700,000.

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

	For the year ended December 31,			
	2001		2002	2003
	Kookmin Bank	H&CB (1)	Kookmin Bank	Kookmin Bank
Number of transactions (millions)	302	271	816	828
Fee revenue (in billions of Won)	(Won) 36	(Won) 23	(Won) 81	(Won) 89

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

Retail Banking

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

Lending Activities

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

	As of December 31,					
	2001		2002		2003	
	(in billions of Won, except percentages)					
Retail:						
Mortgage and home equity loans	(Won) 37,194	30.8%	(Won) 46,195	31.7%	(Won) 52,477	36.0%
Other consumer loans (1)	23,312	19.3	28,066	19.2	28,727	19.7
Total	(Won) 60,506	50.1%	(Won) 74,261	50.9%	(Won) 81,204	55.7%

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

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As of December 31, 2003, mortgage and home equity loans and other consumer loans accounted for 64.6% and 35.4%, respectively, of our retail loans. These retail loans consist of:

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

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

For secured loans, including mortgage and home equity loans, our policy is to lend up to 100% of the adjusted collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) *minus* the value of any lien or other security interest that is prior to our security interest. In calculating the adjusted collateral value for real estate, we use the appraisal value of the collateral multiplied by a factor, generally between 40% to 60%. This factor varies depending upon the location and use of the real estate and is established in part by taking into account court-supervised auction prices for nearby properties.

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

Due to a rapid increase in retail loans and increased credit risks relating thereto, as well as to stabilize the real estate market in Korea, the Financial Supervisory Commission and the Financial Supervisory Service have been adopting more stringent guidelines applicable to mortgage and home equity lending by Korean banks since 2002. See Item 3D. Risk Factors Risks relating to government regulation and policy and Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

Mortgage and Home Equity Lending

Our mortgage and home equity lending has substantially expanded in recent years. The following table provides certain information regarding our mortgage and home equity loans.

	As of December 31,		
	2001 (1)	**2002**	**2003**
	Kookmin Bank	**Kookmin Bank**	**Kookmin Bank**

	(in billions of Won, except percentages)		
Mortgage and home equity lending	(Won) 37,194	(Won) 46,195	(Won) 52,477
Mortgage and home equity lending as a percentage of total loans	30.8%	31.7%	36.0%

(1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001.

As of December 31, 2003, our market share of the outstanding Korean private mortgage market was 34.4% based on our internal statistics. We do not receive any fee income related to the origination of mortgage and home equity loans.

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

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

As of December 31, 2003, approximately 40.5% of our mortgage loans were secured by residential property which is the subject of the loan, 20.0% of our mortgage loans were guaranteed by the Housing Finance Credit Guarantee Fund, a government housing-related entity, and the remaining 39.5% of our mortgage loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from these loans are restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a relatively high percentage of our mortgage loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage loans become secured by the new housing purchased by these borrowers. For the year ended December 31, 2003, the average initial loan-to-value ratio of our mortgage loans, which is a measure of the amount of loan exposure to the appraised value of the security collateralizing the loan, was approximately 64.6%. There are three reasons that our loan-to-value ratio is relatively lower (as is the case with other Korean banks) compared to similar ratios in other countries, such as the United States. The first reason is that housing prices are high in Korea relative to average income, so most people cannot afford to borrow an amount equal to the entire value of their collateral and make interest payments on such an amount. The second reason relates to the jeonsae system, through which people provide a key money deposit while residing in the property prior to its purchase. At the time of purchase, most people use the key money deposit as part of their payment and borrow the remaining amount from Korean banks, which results in a loan that will be for an amount smaller than the appraised value of the property for collateral and assessment purposes. The third reason is that Korean banks discount the appraised value of the borrower s property for collateral and assessment purposes so that a portion of the appraised value is reserved in order to provide recourse to a renter who lives at the borrower s property. This is in the event that the borrower s property is seized by a creditor, and the renter is no longer able to reside at that property. See Item 3D. Risk Factors Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio. As a result of government initiatives, we have also tightened our mortgage loan guidelines.

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Pricing. The interest rates on our retail mortgage loans are generally based on a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived using our Market Opportunity Rate system, which reflects our internal cost of funding, further adjusted to account for our expenses related to lending). Our interest rates also incorporate a margin based among other things on the type of security, priority with respect to the security, loan-to-value and loan length. We can adjust the price to reflect the borrower s current and/or expected future contribution to us. The applicable interest rate is determined at the time of the loan. If a loan is terminated prior to its maturity, the borrower is obligated to pay us an early termination fee of approximately 1% to 1.5% of the loan amount in addition to the accrued interest.

The interest rates on our home equity loans are determined on the same basis as our retail mortgage loans.

As of December 31, 2003, our current three-month, six-month and twelve-month base rates were approximately 5.94%,6.16% and 6.40%, respectively.

As of December 31, 2003, approximately (Won)51,197 billion, or 97.6%, of our outstanding mortgage and home equity loans were priced based on a floating rate and (Won)1,280 billion, or 2.4%, were priced based on a fixed rate.

Other Consumer Loans

Other consumer loans are primarily unsecured. However, such loans may be secured by real estate, deposits or securities. As of December 31, 2003, approximately (Won)15,391 billion, or 54% of our consumer loans (other than mortgage and home equity loans) were unsecured loans (although some of these loans were guaranteed by a third party). Overdraft loans are also classified as other consumer loans, are primarily unsecured and typically have a maturity between one and three years. The amount of overdraft loans have been increasing over the past several years and, as of December 31, 2003, was approximately (Won)10,038 billion.

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

As of December 31, 2003, approximately 93.0% of our other consumer loans had interest rates that were not fixed but were variable in reference to our base rate, which is based on the Market Opportunity Rate.

Deposit-Taking Activities

Due to our extensive nationwide network of branches and the merger, together with our long history of development and our resulting know-how and expertise, as of December 31, 2003, we had the largest number of retail customers and retail deposits among Korean commercial banks. The balance of our deposits from retail customers was (Won)83,129 billion, (Won)92,126 billion and (Won)99,172 billion as of

December 31, 2001, 2002 and 2003, respectively, which constituted 72.3%, 75.3% and 75.4%, respectively, of the balance of our total deposits.

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

Demand deposits, which either do not accrue interest or accrue interest at a lower rate than time or savings deposits. Demand deposits allow the customer to deposit and withdraw funds at any time and, if they are interest bearing, accrue interest at a variable rate depending on the amount of deposit. Retail and corporate demand deposits constituted approximately 3.2% of our total deposits as of December 31, 2003 and paid average interest of 0.3% for 2003.

Time deposits, which generally require the customer to maintain a deposit for a fixed term, during which the deposit accrues interest at a fixed rate or a variable rate based on the Korea Composite Stock Prices

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Index (known as KOSPI), or to deposit specified amounts on an installment basis. If the amount of the deposit is withdrawn prior to the end of the fixed term, the customer will be paid a lower interest rate than that originally offered. The term for time deposits typically range from one month to five years, and the term for installment savings deposits range from six months to ten years. Retail and corporate time deposits constituted approximately 52.2% of our total deposits as of December 31, 2003 and paid average interest of 4.4% for 2003. Most installment savings deposits offer fixed interest rates.

Savings deposits, which allow depositors to deposit and withdraw money at any time and accrue interest at an adjustable interest rate, which is currently below 0.5%. Retail and corporate savings deposits constituted approximately 30.2% of our total deposits as of December 31, 2003 and paid average interest of 0.9% for 2003.

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

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

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

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

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

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

We have a priority customer program that categorizes our customers by their average deposit balance for the most recent three-month period, their contribution to our revenue, and the amount of their transactions with us. A customer may receive preferential treatment in various areas, including interest rates and transaction fees, depending upon how the customer is classified. As of December 31, 2003, we had over 3.7 million priority customers, representing about 15% of our total retail customer base of over 24 million retail customers. In 2003, on an average balance basis, our priority customers held approximately 83% of our total retail customer deposits, and revenues from our priority customers accounted for approximately 54% of our revenues derived from our retail customers.

In the second quarter of 2002, after significant research and planning, we launched private banking operations at our headquarters. Shortly thereafter, we launched a comprehensive strategy with respect to customers with higher net worth, which included staffing appropriate representatives, marketing aggressively, establishing IT systems, selecting appropriate branch locations and readying such branches with the necessary

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facilities to service such customers. As of December 31, 2003, we had established eight centers and plan to gradually increase the number of private banking centers in our branch network. We believe that by offering high quality personal wealth management services to these customers we can increase our share of the priority customer market, which will increase our profitability and our position in the retail banking market.

The Monetary Policy Committee of the Bank of Korea (the Monetary Policy Committee) imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 5%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits).

The Depositor Protection Act provides for a deposit insurance system where the Korea Deposit Insurance Corporation guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a premium rate of 0.1% of our average deposits and we paid (Won)115 billion for 2003.

Credit Cards

Credit cards are another of our core retail products. As a result of the merger with H&CB and our subsequent merger with our subsidiary, Kookmin Credit Card, we currently issue two brands of credit cards and operate both cards directly:

- Kookmin Card; and
- BC Card.

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

	As of and for the year ended December 31,					
	2001		2002		2003	
	(in billions of Won, except number of holders and accounts and percentages)					
	Kookmin Card	BC Card (1)	Kookmin Card	BC Card	Kookmin Card	BC Card
Number of credit card holders (at year end) (thousands)						
General accounts	10,491	4,018	12,614	4,748	10,991	3,899
Corporate accounts	96	24	154	58	148	53
Total	10,587	4,042	12,768	4,806	11,139	3,952
Number of merchants (at year end) (thousands)	1,675	263	1,569	312	1,528	310
Active ratio (at year end) (2)	71%	65%	72%	61%	53.6%	50.1%
Credit card fees						
Merchant fees (3)	(Won) 546	(Won) 187	(Won) 745	(Won) 236	(Won) 690	(Won) 203
Installment and cash advance fees	926	500	1,106	555	543	508
Annual membership fees	40	10	39	12	38	14
Other fees	84	123	158	237	669	223
Total	(Won) 1,596	(Won) 820	(Won) 2,048	(Won) 1,040	(Won) 1,940	(Won) 948
Charge volume (4)						
General purchase	(Won) 14,851	(Won) 3,528	(Won) 18,708	(Won) 4,329	(Won) 21,481	(Won) 4,664
Installment purchase	6,188	3,025	11,026	4,362	7,574	3,223
Cash advance	44,343	15,720	57,166	18,198	41,155	13,204
Card loan (5)	2,774	6,221	5,108	8,784	956	5,409
Total	(Won) 68,156	(Won) 28,494	(Won) 92,008	(Won) 35,673	(Won) 71,166	(Won) 26,500
Outstanding balance (at year end) (6)			,			
General purchase	(Won) 1,394	(Won) 453	(Won) 1,199	(Won) 591	(Won) 1,117	(Won) 491
Installment purchase	2,471	1,325	2,932	1,747	1,459	959
Cash advance	3,293	1,972	2,370	2,184	1,638	1,428
Card loan (5)	2,247	934	2,739	1,227	2,178	979
Total (7)	(Won) 9,405	(Won) 4,684	(Won) 9,240	(Won) 5,749	(Won) 6,392	(Won) 3,857

Average outstanding balances (6)						
General purchase	(Won) 1,267	(Won) 420	(Won) 1,567	(Won) 582	(Won) 1,212	(Won) 625
Installment purchase	2,122	894	3,381	1,599	2,110	1,358
Cash advance	3,039	1,913	3,910	2,389	1,669	1,949
Card loan (5)	1,207	689	2,749	1,150	2,929	1,174
Delinquency ratios (at year end) (8)						
Less than 1 month	1.81%	2.53%	3.08%	2.91%	2.23%	2.70%
From 1 month to 3 months	1.04	2.14	2.85	5.01	4.82	5.04
From 3 months to 6 months	0.94	1.75	2.19	2.85	6.48	2.27
Over 6 months	0.33	1.63	0.01	0.56	0.02	0.05
Total	4.12%	8.05%	8.13%	11.33%	13.55%	10.06%
Non-performing loan ratio						
Reported	2.74%	3.80%	4.70%	5.08%	15.86%	9.58%
Managed	2.18%	3.80%	3.88%	5.08%	11.24%	9.58%
Write-offs (gross)	(Won) 426	(Won) 147	(Won) 1,017	(Won) 671	(Won) 3,453	(Won) 1,742
Recoveries (9)	83	22	112	45	72	79
Net write-offs	(Won) 343	(Won) 125	(Won) 905	(Won) 626	(Won) 3,381	(Won) 1,663
Gross write-off ratio (10)	5.58%	3.75%	8.76%	11.73%	43.60%	34.12%
Net write-off ratio (11)	4.49%	3.19%	7.80%	10.94%	42.69%	32.57%
Asset sales	(Won) 695		(Won) 248			
Asset securitization (12)	2,757		7,463		(Won) 5,075	

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(1) BC Card-related amounts for the first ten months of 2001 included in the figures for 2001 reflect historical information of H&CB prior to the merger.
(2) For 2001 and 2002, the active ratio represents the ratio of the number of cards used at least once within the last 12 months to the total number of cards issued as of year end. In 2003, the active ratio for Kookmin Card represents the ratio of accounts used at least once within the last six months to total accounts as of year end, while the active ratio for BC Card represents the ratio of cards outstanding at year end that have been issued for at least six months and that have been used at least once within the last six months of the year.
(3) Merchant fees consist of merchant membership and maintenance fees, costs associated with prepayment by us (on behalf of customers) of sales proceeds to merchants, processing fees relating to sales and membership applications, costs relating to the management of delinquencies and recoveries, bad debt expenses, general variable expenses and other fixed costs that are charged to our member merchants. We charge our member merchants fees that range from 1.0% to 4.5%.
(4) Represents the aggregate cumulative amount charged during the year.
(5) Card loans consist of loans that are provided on either a secured or unsecured basis to cardholders upon prior agreement. Payment of principal, fees and interest on such a loan can be due either in one payment or in installments after a fixed period.
(6) Excludes credit card balances transferred to special purpose entities in connection with asset securitization transactions, which transfers are recognized as sales under Korean GAAP but not under U.S. GAAP.
(7) Total outstanding balances pursuant to U.S. GAAP for Kookmin Card and BC Card, respectively, were (Won)12,131 billion and (Won)4,620 billion as of December 31, 2001, (Won)16,948 billion and (Won)5,695 billion as of December 31, 2002 and (Won)11,467 billion and (Won)3,855 billion as of December 31, 2003.
(8) Represents the ratio of delinquencies to outstanding balance. In line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans and have also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. As of December 31, 2003, these restructured loans and substituted cash advances amounted to (Won)1,839 billion. Because these restructured loans and cash advances are not treated as being delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances.
(9) Does not include proceeds that we received from sales of our non-performing loans that were written off. In 2003, such proceeds amounted to (Won)201 billion. In 2001 and 2002, we had no such proceeds.
(10) Represents the ratio of gross write-offs for the year to average outstanding balance for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which are 180 days past due, except for those balance with a reasonable probability of recovery. In 2003, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.
(11) Represents the ratio of net write-offs for the year to average outstanding balances for the year. Under Korean GAAP, our charge-off policy is generally to write off balances which are 180 days past due, except for those balance with a reasonable probability of recovery. In 2003, our write-off ratio under Korean GAAP increased considerably due to significant repurchases and subsequent write-offs of credit card receivables underlying asset-backed securities that were issued in late 2002.
(12) Comprises credit card balances that were transferred in asset securitization transactions. Under U.S. GAAP, these transfers are not recognized as sales and are recorded as secured borrowings.

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

In contrast to the system in the United States and many other countries, where most credit cards are revolving cards that allow outstanding amounts to be rolled over from month to month so long as a required minimum percentage is repaid, credit card holders in Korea are generally required to pay for their purchases within approximately 20 to 60 days of purchase depending on their payment cycle. However, we have also recently begun to offer revolving cards to individuals that allow outstanding amounts to be rolled over to subsequent payment periods. Delinquent accounts (defined as amounts overdue for one day or more) are charged

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penalty interest and closely monitored. For installment purchases, we charge interest on unpaid installments at rates that vary according to the terms of repayments. See Item 3D. Risk Factors Risks relating to our retail credit portfolio.

We believe that by establishing a unified credit card business through our merger with Kookmin Credit Card, we can further enhance this business by strengthening our risk management and maximizing our operational efficiency. In addition, we believe that our extensive branch network, name recognition and overall size will enable us to cross-sell products such as credit cards to our existing and new customers. We also believe that the different merchant networks of Kookmin Card and BC Card will provide us with further opportunities to cross-sell credit cards and other credit card-related products.

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

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

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

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

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

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

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

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

Kookmin Credit Card

In 1980, the former Kookmin Bank became one of the first financial institutions to issue credit cards and provide credit card services in Korea. In order to manage the credit card business more efficiently, we separated the credit card business from our banking activities and established a subsidiary called Kookmin Credit Card in 1987, which was subsequently registered with KOSDAQ on July 4, 2000. On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card and, on September 30, 2003, we merged with Kookmin Credit Card. Kookmin Credit Card s business operations were combined with our BC Card operations. The combined credit card business group has operational autonomy with respect the credit card business and was organized based on the operational platform of Kookmin Credit Card. See Item 3D. Risk Factors Risks relating to our retail credit portfolio Our merger with our credit card subsidiary has resulted in labor unrest and may also result in customer loss and Item 4A. History and Development of the Company The Merger with Kookmin Credit Card.

As of December 31, 2003, we had issued more than 11.1 million Kookmin Cards, representing 13.1% of the total credit cards issued in Korea based on its internal statistics. Of the credit cards outstanding, approximately 53.6% were active, meaning that they had been used at least once during the previous six months. As of December 31, 2003, the Korean market share for Kookmin Cards with respect to outstanding credit card balances was 15.1% according to the Korea Non-Bank Financing Association. Our revenues consist principally of cash advance fees, merchant fees, interest income from credit card loans, cardholders purchase fees, including interest on late and deferred payments, and annual fees paid by cardholders.

Holders of Kookmin Card are required to pay for their purchases within 29 to 47 days after the date of purchase, depending on their payment cycle. Except in the case of installment purchases, accounts, which remain unpaid after this period, are deemed to be delinquent.

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We generate other fees through a processing charge on merchants, with the average charge equaling approximately 2.44%.

Under non-exclusive license agreements with MasterCard International Incorporated and Visa International Service Association, we also issue MasterCard and Visa credit cards.

We launched our debit card business in February 1996 in response to changing customer needs. We charge merchants an average commission of 1.5% of the amounts purchased using a debit card.

BC Card

BC Card Co., Ltd. was established in 1982 by five nationwide banks and is currently owned by 11 member banks. BC Card issues credit cards under the names of its member banks, substantially all of which are licensed to use MasterCard, Visa or the Japanese Credit Bureau (JCB). We use these brands through a fee-based system and, as a result, our customers are able to use their cards outside of Korea. BC Card provides a number of services for our card operations including issuing cards, providing billing services and managing arrears and delinquencies. We plan to continue to participate in the BC Card consortium in order to take advantage of its brand name and infrastructure, continue to receive information about our customers, capitalize on cross-selling opportunities and reduce our risks in the credit card business. As of December 31, 2003, we owned 4.95% of BC Card.

As of December 31, 2003, BC Card, on our behalf, had issued 4.7% of the total credit cards issued in Korea based on its internal statistics. As of December 31, 2003, BC Card, on our behalf, had more than 3.9 million cardholders. Of the credit cards outstanding as of December 31, 2003, approximately 50.1% were active, meaning that the cards had been used within the last six months. In determining this activity rate, we do not consider cards that have been issued for less than six months as active. As of December 31, 2003, the Korean market share for BC Card issued on our behalf with respect to credit card transaction volumes was 5.1%. BC Card s revenues consist principally of cash advance fees, merchant fees, interest income from credit card loans, cardholders purchase fees, including interest on late and deferred payments, and annual fees paid by cardholders.

BC Card holders are required to pay the entire amount of their purchases within 18 to 52 days after the date of purchase depending on their payment cycle. Except in the case of installment purchases and revolving payments, accounts that remain unpaid after this period are deemed to be delinquent. This reflects standards generally present in the Korean credit card industry. See Kookmin Credit Card above.

BC Card generates other fees through a processing charge on the merchants, with the average charge equaling approximately 2.47%.

Corporate Banking

We lend to and take deposits from small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2001, 2002 and 2003, we had 168,163, 152,517 and 154,632 small- and medium-sized enterprise borrowers and 1,129, 878 and 620 large corporate borrowers, respectively. For 2001, 2002 and 2003, we received fee revenue from firm banking services offered to corporate customers, which include inter-account transfers, transfers of funds from various branches and agencies of a company (such as insurance premium payments) to the account of the headquarters of such company and transfers of funds from various customers of a company to the main account of such company, in the amount of (Won)34.2 billion, (Won)56.3 billion and (Won)62.8 billion, respectively. Of our branch network as of December 31, 2003, we had 120 branches dedicated exclusively to corporate banking.

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

	As of December 31,					
	2001		2002		2003	
	(in billions of Won, except percentages)					
Corporate:						
Small- and medium-sized enterprise loans	(Won) 30,498	25.2%	(Won) 38,871	26.7%	(Won) 41,540	28.5%
Large corporate loans	11,993	9.9	8,631	5.9	6,359	4.3
Total	(Won) 42,491	35.1%	(Won) 47,502	32.6%	(Won) 47,899	32.8%

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

The total amount of deposits from our corporate customers amounted to (Won)30,663 billion as of December 31, 2003, or 23.3% of our total deposits.

Small-and Medium-Sized Enterprise Banking

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

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

Lending Activities

Our principal loan products for our small- and medium-sized enterprise customers are working capital loans and facilities loans. Working capital loans are provided to finance working capital requirements and include notes discounted and trade financing. Facilities loans are provided to finance the purchase of equipment and the establishment of manufacturing assembly plants. As of December 31, 2003, working capital loans and facilities loans accounted for 85.4% and 14.6%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2003, we had the largest share among Korean banks in terms of the total amount of Won-denominated loans extended to small- and medium-sized enterprises, with over 154,000 customers and an estimated market share of 20.0%, based on our internal statistics.

Loans to small- and medium-sized enterprises may be secured by real estate or deposits or be unsecured. As of December 31, 2003, secured loans and guaranteed loans accounted for, in the aggregate, 80.2% of our small- and medium-sized enterprise loans. Among the secured loans, approximately 68.1% were secured by real estate

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and 31.9% were secured by deposits or securities. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

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

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous 3.5 years. We revalue any collateral on a periodic basis (generally every year) or if a trigger event occurs with respect to the loan in question.

We also offer collective housing loans. Our collective housing loans are mortgage loans to home builders or developers who build or sell single- or multi-family housing units, principally apartment buildings. Many of these builders and developers are categorized as small- and medium-sized enterprises. We offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors used for working capital purposes, and loans to educational establishments, small- and medium-sized enterprises and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower s creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

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

Pricing

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

Our Market Opportunity Rate system is a periodic floating rate system which takes into account the current market interest rate and an activity-based cost, and a spread calculated to achieve a target return on asset ratio set for the year. As of December 31, 2003, the Market Opportunity Rate was 4.35% for three months, 4.57% for six months and 4.81% for one year, respectively.

While we generally utilize the Market Opportunity Rate system, depending on the price and other terms set by competing banks for similar borrowers, we may adjust the interest rate we charge to compete more effectively with other banks.

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

Large Corporate Banking

Large corporate customers include all companies that are neither small- and medium-sized enterprise customers nor government corporations. Due to our history of development and limitations in our articles of incorporation, large corporate banking was not a core business of the former Kookmin Bank or of H&CB prior to the merger. Our articles of incorporation provide that financial services to large corporate customers must be no more than 40% of the total amount of our Won-denominated loans. Within this constraint, we intend to maintain our large corporate banking activities at least at their current level.

Lending Activities

As in the case of our small- and medium-sized enterprise banking business, our principal loan products for our large corporate customers are working capital loans and facilities loans. As of December 31, 2003, working capital loans and facilities loans accounted for 83.4% and 16.6% of our total large corporate loans. We also offer collective housing loans (as described above under Small- and Medium-Sized Enterprise Banking Lending Activities) to large corporate clients.

As of December 31, 2003, secured loans and guaranteed loans accounted for, in the aggregate, 37.7% of our large corporate loans. Among the secured loans, approximately 75.6% were secured by real estate and approximately 24.4% were secured by deposits or securities. Working capital loans generally have a maturity of one year but are extended on an annual basis for an aggregate term of three years. Facilities loans have a maximum maturity of 10 years.

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

As of December 31, 2003, in terms of our outstanding loan balance, 33.6% of our large corporate loans was extended to borrowers in the manufacturing industry, 9.9% was extended to borrowers in the construction industry, and 16.1% was extended to borrowers in the financial and insurance industry.

Pricing

We determine pricing of our large corporate loans in the same way as we determine the pricing of our small- and medium-sized enterprise loans. See Small- and Medium-Sized Enterprise Banking Pricing above. As of December 31, 2003, the Market Opportunity Rate, which is utilized in pricing loans offered by us, was the same for our large corporate loans as for our small- and medium-sized enterprise loans.

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Capital Markets Activities and International Banking

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

Securities Investment and Trading

We invest in and trade securities for our own account in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2001, 2002 and 2003, our investment portfolio, which consists primarily of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)32,738 billion, (Won)29,898 billion and (Won)25,167 billion and represented 17.8%, 16.2% and 13.7% of our total assets, respectively.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, local governments or certain government-invested enterprises and debt securities issued by financial institutions. As of December 31, 2001, 2002 and 2003, we held debt securities with a total book value of (Won)24,311 billion, (Won) 21,941 billion and (Won) 23,628 billion, respectively, of which:

- held-to-maturity debt securities accounted for (Won)13,225 billion, (Won)11,134 billion and (Won)6,137 billion or 54.4%, 50.7% and 26.0%, respectively;

- available-for-sale debt securities accounted for (Won)8,772 billion, (Won)9,030 billion and (Won)14,925 billion or 36.1%, 41.2% and 63.1%, respectively; and

- trading debt securities accounted for (Won)2,314 billion, (Won)1,777 billion and (Won)2,565 billion or 9.5%, 8.1% and 10.9%, respectively.

Of these amounts, debt securities issued by the Korean government and government agencies as of December 31, 2001, 2002 and 2003 amounted to:

- (Won)8,915 billion, (Won)8,735 billion and (Won)5,228 billion, or 67.4%, 78.5% and 85.2%, respectively, of our held-to-maturity debt securities;

- (Won)3,675 billion, (Won)4,096 billion and (Won)4,996 billion, or 41.9%, 45.4% and 33.5%, respectively, of our available-for-sale debt securities;

- (Won)1,229 billion, (Won)840 billion and (Won)1,419 billion, or 53.1%, 47.3% and 55.3%, respectively, of our trading debt securities.

From time to time we also purchase equity securities for our securities portfolios. Our equity securities consist primarily of marketable beneficiary certificates and equities listed on the Korea Stock Exchange or KOSDAQ. As of December 31, 2001, 2002 and 2003:

- equity securities in our available-for-sale portfolio had a book value of (Won)3,552 billion, (Won)3,452 billion and (Won)764 billion, or 28.8%, 27.7% and 4.9% of our available-for-sale portfolio, respectively; and

- equity securities in our trading portfolio had a book value of (Won)4,193 billion, (Won)3,898 billion and (Won)175 billion, or 64.4%, 68.7% and 6.4% of our debt and equity trading portfolio, respectively.

Our trading portfolio also includes foreign exchange spot contracts and derivative instruments. See Derivatives Trading. Our investment portfolio also includes venture capital activities, non-marketable or restricted equity securities, investments under the equity method and investments held by our asset management subsidiary. As of December 31, 2001, 2002 and 2003, these investments had an aggregate book value of (Won)682 billion, (Won)607 billion and (Won)601 billion, respectively.

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

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

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

	As of December 31, 2002			
	Amortized Cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 4,022	(Won) 82	(Won) 8	(Won) 4,096
Corporate (1)	2,041	54	27	2,068
Financial institutions (2)	2,622	33	6	2,649
Foreign governments	17	3		20
Asset-backed securities	155	42		197
Subtotal	8,857	214	41	9,030
Marketable equity securities	3,360	97	5	3,452
Total available-for-sale securities	(Won) 12,217	(Won) 311	(Won) 46	(Won) 12,482

Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 8,735	(Won) 294		(Won) 9,029
Corporate (3)	313	30	(Won) 2	341
Financial institutions (4)	933	9		942
Foreign governments	49	1	1	49
Asset-backed securities	1,104	15		1,119
Total held-to-maturity securities	(Won) 11,134	(Won) 349	(Won) 3	(Won) 11,480

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	As of December 31, 2003			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 5,024	(Won) 11	(Won) 39	(Won) 4,996
Corporate (1)	1,845	95	10	1,930
Financial institutions (2)	7,900	21	21	7,900
Foreign governments	30	9		39
Asset-backed securities	59	1		60
Subtotal	14,858	137	70	14,925
Marketable equity securities	734	30		764
Total available-for-sale securities	(Won) 15,592	(Won) 167	(Won) 70	(Won) 15,689
Held-to-maturity securities:				
Korean Treasury securities and government agencies	(Won) 5,228	(Won) 157	(Won) 8	(Won) 5,377
Corporate (3)	132	10		142
Financial institutions (4)	297	5		302
Foreign governments				
Asset-backed securities	480	2	1	481
Total held-to-maturity securities	(Won) 6,137	(Won) 174	(Won) 9	(Won) 6,302

(1) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)241 billion as of December 31, 2001, (Won)183 billion as of December 31, 2002 and (Won)77 billion as of December 31, 2003.

(2) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,907 billion as of December 31, 2001, (Won)2,217 billion as of December 31, 2002 and (Won)7,390 billion as of December 31, 2003. These financial institutions are controlled by the Korean government.

(3) Includes debt securities issued by Korea Electric Power Corporation, which is controlled by the Korean government, in the amount of (Won)156 billion as of December 31, 2001, (Won)88 billion as of December 31, 2002 and (Won)36 billion as of December 31, 2003.

(4) Includes debt securities issued by the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea in the aggregate amount of (Won)1,402 billion as of December 31, 2001, (Won)876 billion as of December 31, 2002 and (Won)265 billion as of December 31, 2003. These financial institutions are controlled by the Korean government.

Derivatives Trading

Until the full-scale launch of our derivative operations in mid-1999, we had been engaged in limited volumes of derivatives trading, mostly on behalf of our customers. Since then, our trading volume significantly increased from (Won)30,997 billion in 2001, to (Won)60,848 billion in 2002 and to (Won)99,238 billion in 2003. Our net trading revenue from derivatives and foreign exchange spot contracts for the year ended December 31, 2001, 2002 and 2003 was (Won)88 billion, (Won)189 billion and (Won)127 billion, respectively.

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

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

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

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

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

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

The following shows the estimated fair value of our derivatives and foreign exchange spot contracts as of December 31, 2001, 2002 and 2003.

	As of December 31,					
	2001		2002		2003	
	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities	Estimated Fair Value Assets	Estimated Fair Value Liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 3	(Won) 4	(Won) 5	(Won) 4	(Won) 2	(Won) 2
Foreign exchange derivatives	254	202	512	353	411	315
Interest rate derivatives	83	81	150	247	149	245
Equity derivatives	27		26	21	214	201
Credit derivatives						
Total	(Won) 367	(Won) 287	(Won) 693	(Won) 625	(Won) 776	(Won) 763

The following table shows the unrealized gains and losses of derivatives held or issued for hedging purposes that qualified for hedge accounting under U.S. GAAP, as of December 31, 2001, 2002 and 2003.

	As of December 31,					
	2001		2002		2003	
	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses	Unrealized Gains	Unrealized Losses
	(in billions of Won)					
Interest rate derivatives			(Won) 9	(Won) 9	(Won) 3	(Won) 3

Total			(Won) 9	(Won) 9	(Won) 3	(Won) 3

Asset Securitization Transactions

We are active in the Korean asset-backed securities market. We have participated in a number of asset securitization transactions in Korea, through our capacities as arranger, trustee and liquidity provider. We have a significant share of the trustee market. We believe that our participation in the asset-backed securities market will provide us with an alternate source of fee income. In addition, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)10,886 billion in 2003, (Won)13,104 billion in 2002 and (Won)20,397 billion in 2001. We believe that most of these securities are sold to institutional investors buying through Korean securities houses.

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Call Loans

We make call loans and borrow call money in the short-term money market. Call loans are short-term lending among banks and financial institutions in either Won or foreign currencies, in amounts exceeding (Won)100 million, with maturities of 30 days or less. Typically, call loans have maturities of one day. As of December 31, 2003, we had made call loans of (Won)2,459 billion and borrowed call money of (Won)225 billion, compared to (Won)229 billion and (Won)306 billion, respectively, as of December 31, 2002.

Investment Banking

We have focused on selectively expanding our investment banking activities in order to increase our fee income and diversify our revenue base. The main focus of our investment banking operations is project finance and financial advisory services. We provide project finance and financial advisory services in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and brokerage of merger and acquisition transactions. In 2003, we generated investment banking revenue of (Won)119 billion, consisting of (Won)92 billion of interest income and (Won)27 billion of fee income, from 24 financing arrangements and 27 advisory projects.

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

International Banking

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

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

	As of December 31,		
	2001	**2002**	**2003**
	(in millions of US$)		
Total foreign currency assets	$ 6,817	$ 6,035	$ 5,439
Foreign currency borrowings			
Long-term borrowings	2,082	1,664	1,671
Short-term borrowings	1,506	1,316	1,324

Total borrowings	$ 3,588	$ 2,980	$ 2,995

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2003.

	Location
Subsidiaries	
Kookmin Finance Hong Kong Ltd.	Hong Kong
Kookmin Bank International Ltd.	United Kingdom
Branches	
Kookmin Bank, Tokyo Branch	Japan
Kookmin Bank, Auckland Branch	New Zealand
Kookmin Bank, New York Branch	United States

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

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

In December 2003, we invested (Won)71 billion for a 25% interest in Sorak Financial Holdings, which was originally owned by Temasek Holdings, the Singapore government s investment vehicle. We made this investment as part of a consortium with Temasek and other parties that was formed to bid for a majority interest in Bank Internasional Indonesia, an Indonesian commercial bank, being auctioned by the Indonesian Bank Restructuring Agency. With the capital contributions made by the consortium members, Sorak Financial Holdings acquired a 51% interest in Bank Internasional Indonesia. As a member of the consortium, we participate in the management of Bank Internasional Indonesia.

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

We act as a trustee for 24 securities investment trust management companies, which are entities established to invest in securities using funds raised by the sale of beneficiary certificates of investment trusts to investors. We also act as custodian, settlement and clearing agent and fund administrator for 50 financial institutions with respect to various securities investments. We receive a fee for acting in these capacities and generally perform the following functions:

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

For the year ended December 31, 2003, our fee income from our trustee and custodian services was (Won)19 billion. Approximately 19% of the securities investment trusts for which we provide trustee services are currently managed by KB Asset Management, which is a subsidiary owned 80% by us and 20% by ING Insurance International N.V.

Other Businesses

Trust Account Management Services

Money Trust Management Services

We provide trust account management services for money trusts, which are trusts the assets of which we generally have broad discretion in investing. We receive fees for our trust account management services consisting of (1) basic fees that are based upon a percentage of the net asset value of the assets under management and (2) performance fees that are based upon the performance of the trust account operation. In 2003, our basic fees ranged from 0.4% to 2.0% of total assets under management depending on the type of trust account product. We also charge performance fees with respect to certain types of trust account products. We receive penalty payments when customers terminate their trust accounts prior to the original contract maturity.

We currently provide trust account management services for 22 types of money trusts. The money trusts we manage are generally trusts with a fixed life. Certain of our money trusts also make periodic distributions of dividend.

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

As of December 31, 2003, the total balance of our money trusts (under Korean GAAP) was (Won)10,278 billion. Except for specified money trust accounts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust account. Specified money trust accounts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

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

	As of December 31,		
	2001	2002	2003(1)
		(in billions of Won)	
Principal and interest guaranteed trusts	(Won) 3	(Won) 1	(Won) 0.4
Principal guaranteed trusts	5,394	3,696	3,261
Performance trusts	14,343	11,659	7,017
Total	(Won) 19,740	(Won) 15,356	(Won) 10,278

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

The balance of our money trusts decreased 47.9% between December 31, 2001 and December 31, 2003.

As of December 31, 2003, the trust assets we managed consisted principally of securities investments and loans from the trust accounts. As of December 31, 2003, under Korean GAAP, our trust accounts had invested in securities in the aggregate amount of (Won)8,741 billion, of which (Won)8,282 billion was debt securities. Securities investments consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. Loans made by our trust account operations are similar in type to the loans made by our bank account operations. As of December 31, 2003, under Korean GAAP, our trust accounts had made loans in the principal amount of (Won)490 billion (excluding loans from the trust accounts to our banking accounts of (Won)1,384 billion), which accounted for approximately 4.6% of our money trust assets. Loans by our money trusts are subject to the same credit approval process as loans from our banking accounts. As of December 31, 2003, 98.2% of the amount of loans from our money trust accounts were collateralized or guaranteed.

Our money trust accounts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust companies. On a Korean GAAP basis, as of December 31, 2003, equity securities in our money trust accounts amounted to (Won)459 billion, which accounted for approximately 4.3% of our total money trust assets. Of this amount, (Won)327 billion was from specified money trusts and (Won)132 billion was from money trusts over which we have investment discretion.

For some of the money trusts we manage, we have guaranteed the principal amount of an investor s investment as well as a fixed rate of interest. As a result of changes in the Financial Supervisory Commission regulations on January 1, 1999, we can no longer offer new money trusts where we guarantee both the principal amount and a fixed rate of interest. On a Korean GAAP basis, as of December 31, 2003, the balance of the money trusts for which we guaranteed both the principal and interest was (Won)0.4 billion, most of which had a maturity of one year or less.

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We currently continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor s investment. On a Korean GAAP basis, as of December 31, 2003, the balance of the money trusts for which we guaranteed only the principal was (Won)3,261 billion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained with respect to trust accounts followed by basic fees from that money trust and funds from our general banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. In 2001, we made payments from our banking accounts to cover shortfalls in our guaranteed return trusts of (Won)31 billion. In 2002 and 2003, we made no such payments. On a Korean GAAP basis, after these payments from our banking accounts to guaranteed trust accounts, we derived net trust fees with regard to trust account management services (including those fees related to property trust management services) of (Won)203 billion in 2001, (Won)319 billion in 2002 and (Won)232 billion in 2003.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products, took effect in January 2004. Under that law, a bank will not be permitted to offer unspecified money trust products after July 2004 (except under certain limited circumstances) and will be required to qualify as an asset management company by such date in order to manage any newly offered unspecified money trust products. See Supervision and Regulation Trust Business. As a result, commencing in July 2004, we plan to concentrate on product marketing and plan to transfer product management to KB Asset Management (except with respect to products sold prior to July 2004, which we will continue to manage directly until they mature). We believe that we can leverage our extensive sales network in connection with KB Asset Management s unspecified money trust operations.

Property Trust Management Services

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

In 2003, our property trust fees ranged from 0.001% to 0.3% of total assets under management depending on the type of trust account product. As of December 31, 2003, the aggregate balance of our property trusts decreased to (Won)21,454 billion, compared to (Won)26,853 billion in 2002.

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

Investment Trust Management

We offer securities investment trust products to customers and manage the funds invested by them in investment trusts, through our subsidiary, KB Asset Management, which is 80% owned by us and 20% owned by ING Insurance International N.V. As of December 31, 2003, we had (Won)8,298 billion of investment trust assets under management. We currently intend to participate in the bidding for an interest in either Korea Investment & Securities or Daehan Investment & Securities, which were acquired and recapitalized by the Korea Deposit Insurance Corporation on behalf of the Korean government due to the financial difficulties they were experiencing and are in the process of being auctioned by the Korea Deposit Insurance Corporation. Several potential domestic and overseas purchasers, including us, have submitted preliminary bids for each company and are conducting a due diligence review of each company. The Korea Deposit Insurance Corporation has announced that it intends to select one or more preferred bidders for each company in July 2004 and to complete the sale of its interests in the two companies by the end of 2004. Korea Investment & Securities had operating revenues of (Won)479 billion and a net loss of (Won)188 billion for the year ended March 31, 2004, each under Korean GAAP. Korea Investment Trust Management, which is a wholly owned subsidiary of Korea Investment & Securities and is one of Korea s largest investment trust companies, had (Won)17,624 billion of assets under

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management as of March 31, 2004 under Korean GAAP. Daehan Investment & Securities had operating revenues of (Won)665 billion and a net loss of (Won)121 billion for the year ended March 31, 2004, each under Korean GAAP. Daehan Investment Trust Management, which is a wholly owned subsidiary of Daehan Investment & Securities and is also one of Korea s largest investment trust companies, had (Won)19,324 billion of assets under management as of March 31, 2004 under Korean GAAP. We believe that the acquisition of a controlling interest in either of these companies will allow us to develop our investment trust management business. However, there is no guarantee that we will ultimately decide to participate in the bidding, or be ultimately selected as the purchaser, for either of these companies.

Management of the National Housing Fund

We manage the operations of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small-sized housing. The operations of the National Housing Fund include providing and managing National Housing Fund loans, issuing National Housing Fund bonds and accepting subscription savings deposits.

In return for managing the operations of the National Housing Fund we receive a monthly fee, calculated based on activity levels for the relevant month. In February 2003, the Ministry of Construction and Transportation amended the method of calculating these fees. In 2003, we received total fees of (Won)175 billion for managing the National Housing Fund, which accounted for 10.8% of our total fee and commission revenue during 2003, compared to (Won)198 billion in 2002.

In connection with our management of the National Housing Fund, we also managed the National Housing Fund s lotteries. In December 2002, we also combined with several government agencies to manage a new lottery called Lotto 6/45 a portion of the proceeds of which will go to the National Housing Fund. In April 2004, the Lottery and Lottery Fund Act was enacted and the National Housing Fund s lotteries and Lotto 6/45 are no longer operated by the National Housing Fund, although we continue to manage these lotteries. In 2003, we received total fees of (Won)81.9 billion in connection with our management of these lotteries.

The financial accounting for the National Housing Fund is entirely separate from our financial accounting, and the non-performing loans and loan losses of the National Housing Fund, in general, do not impact our financial condition. Regulations and guidelines for managing the National Housing Fund are issued by the Minister of Construction and Transportation pursuant to the Housing Act, which was formerly known as the Housing Law.

On November 1, 2002, the Ministry of Construction and Transportation designated two other financial institutions as managers, together with us, of the Fund with a view to diversify the management of the Fund. The appointment of the two other financial institutions to manage the National Housing Fund is for three years and is subject to renewal. The Ministry of Construction and Transportation also changed the basis of calculating fees related to the National Housing Fund. The Ministry of Construction and Transportation has also strengthened existing regulations to provide for liability of managers of the National Housing Fund, where they had clear responsibility for non-performing National Housing Fund loans or where losses resulted to the National Housing Fund due to negligent management.

Bancassurance

In December 2002, we entered into a strategic alliance agreement with ING Bank N.V., ING Insurance International N.V. and ING Life Insurance Company, Korea, Ltd., pursuant to which ING Life Insurance Company, Korea, Ltd. would be the exclusive provider of life insurance products for our bancassurance business so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in the strategic alliance agreement. This was in anticipation of the revision by the Korean government of relevant regulations to liberalize the bancassurance market and allow non-insurance distribution channels, such as banks and other financial institutions, to offer banking and insurance products from August 2003. The Korean government,

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however, announced that banks and other financial institutions may not enter into an exclusive relationship with one insurance company for the provision of life insurance products. In August 2003, we amended and restated the strategic alliance agreement to a non-exclusive, commercial relationship-based alliance. See Item 4A. History and Development of the Company History History of H&CB, Item 7B. Related Party Transactions and Item 10C. Material Contracts. In addition, we have entered into marketing agreements with Samsung Life Insurance Co., Kyobo Life Insurance Co., Tongyang Life Insurance, Tongyang Fire Insurance, Korea Life Insurance Co., Hyundai Marine & Fire Insurance Co., LG Insurance Co., Dongbu Insurance Co., Oriental Fire & Marine Insurance Co., ING Life Insurance and LG Fire Insurance to provide insurance products for our bancassurance business on a non-exclusive basis.

In April 2004, we entered into an agreement with the Korea Deposit Insurance Corporation to purchase the assets and liabilities of Hanil Life Insurance for (Won)2.5 billion, in order to expand our bancassurance business. In connection with our acquisition, which will be completed in June 2004, we also established a new wholly-owned insurance subsidiary, KB Life Co., Ltd., to which we will contribute the acquired assets and liabilities. KB Life will focus on bancassurance, and offer life insurance and wealth management products through our branch network. ING Groep N.V. is expected to purchase a 49% interest in KB Life.

Our bancassurance business currently offers 25 different insurance products through our branch network. We are focusing on marketing competitively priced retirement products to customers in their forties and fifties.

Other Distribution Channels

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

	For the year ended December 31,			
	2001		2002	2003
	Kookmin Bank	H&CB	Kookmin Bank	Kookmin Bank
Phone banking:				
Number of users (1)	2,241,987	1,908,576	1,696,587	1,577,488
Number of transaction (thousands)	188,748	59,825	338,616	252,297
Fee revenue (in millions of Won)	(Won) 6,080	(Won) 3,468	(Won) 11,817	(Won) 14,566
Internet banking:				
Number of users (2)	1,667,324	856,658	2,733,802	3,602,146
Number of transactions (thousands)	173,099	66,028	271,419	388,298
Fee revenue (in millions of Won)	(Won) 685	(Won) 6	(Won) 701	(Won) 1,174

(1) For 2001, users were defined as any person who had ever recorded a transaction using phone banking. For 2002 and 2003, users were defined as persons who had recorded a transaction within the past six months (excluding overlapping and inactive customers).

(2) For 2001, users were defined as any person who had ever recorded a transaction using Internet banking. For 2002 and 2003, users were defined as persons who had recorded a transaction within the past 12 months (excluding overlapping and inactive customers).

Phone Banking

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

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

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

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

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

Internet Banking

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

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

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

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

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

Mobile Banking

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

Other Channels

In May 1989, we began providing cash management services, which included automatic transfers, connection services to other financial institutions, real-time firm banking, automatic fund concentration and transmittal of trading information. We have continued to develop our firm banking services and, as of December 31, 2003, we provided cash management services to over 3,000 large corporations and small- and medium-sized enterprises.

Competition

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

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

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

In addition, the Korean commercial banking sector is undergoing significant consolidation. A number of significant mergers and acquisitions in the industry have taken place in Korea during the last five years, including the establishment of financial holding companies, which have reduced the number of nationwide commercial banks in Korea from 16 as of December 31, 1997, to eight banks and two financial holding companies as of December 31, 2003. Furthermore, in May 2004, a major Korean bank was acquired by a leading global financial institution. Merger and acquisition activity in the Korean commercial banking sector may continue, and we intend to review potential acquisition opportunities as they arise. We cannot guarantee that we will not be involved in any future mergers. In addition, some of the banks resulting from these mergers may, by virtue of the increased size, provide significantly greater competition than what exists at present.

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

Information Technology

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

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

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

- streamlining our core banking infrastructure through eliminating redundancies in our IT systems by adopting the New Technology Based System, which is an advanced IT system designed to enhance our processing speed and be more user-friendly through the adoption of component-based development technology based on Java and J2EE, which is the newest Java platform;

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

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

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

In 2003, we spent approximately (Won)235 billion for our IT systems, including for continued upgrades and improvements to our integrated system and for developing the New Technology Based System. For the next three years, we allocated approximately (Won)154 billion in order to continue to develop the New Technology Based System. As of December 31, 2003, we employed a total of approximately 848 employees in connection with our IT operations.

Assets and Liabilities

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

Loan Portfolio

As of December 31, 2003, our total loan portfolio remained relatively stable at (Won)145,858 billion compared to (Won)145,832 billion at December 31, 2002. As of December 31, 2003, approximately 97.2% of our total loans were Won-denominated loans.

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Loan Types

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

	As of December 31,				
	1999	2000	2001	2002	2003
	(in billion of Won)				
Domestic					
Corporate					
Commercial and industrial (1)	(Won) 24,667	(Won) 29,795	(Won) 36,113	(Won) 40,072	(Won) 41,096
Construction	1,724	2,168	4,141	6,385	6,061
Lease financing	882	592	568		
Other commercial	1,053	1,216	1,669	1,045	742
Retail					
Mortgage and home equity	6,034	8,068	37,194	46,195	52,477
Other consumer	6,143	8,151	23,312	28,066	28,727
Credit cards	3,362	8,321	16,751	22,643	15,322
Total domestic	43,865	58,311	119,748	144,406	144,425
Foreign					
Corporate					
Commercial and industrial	1,080	1,086	1,146	1,426	1,433
Total foreign	1,080	1,086	1,146	1,426	1,433
Total gross loans	(Won) 44,945	(Won) 59,397	(Won) 120,894	(Won) 145,832	(Won) 145,858

(1) Commercial and industrial loans include (Won)447 billion, (Won)1,832 billion, (Won)334 billion, (Won)165 billion and (Won)3 billion of loans to Korean government and government related agencies (including the Korea Deposit Insurance Corporation) as of December 31, 1999, 2000, 2001, 2002 and 2003, respectively.

Loan Concentrations

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

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Twenty Largest Exposures by Borrower

As of December 31, 2003, our twenty largest exposures totaled (Won)17,130 billion and accounted for 9.9% of our total exposures. The following table sets forth, as of December 31, 2003, our total exposures to these top twenty borrowers under Korean GAAP.

	Loans						Amounts classified as
Company	**Won currency**	**Foreign currency**	**Equity Securities**	**Debt Securities**	**Guarantees and acceptances**	**Total exposures**	**impaired loans**
				(in billions of Won)			
Bank of Korea				(Won) 7,429		(Won) 7,429	
Korea Deposit Insurance Corporation				3,726		3,726	
Industrial Bank of Korea.		(Won) 216	(Won) 3	468		687	
Korea Development Bank				659		659	
LG Card	(Won) 487			56		543	(Won) 487
Korean Land Development			6	526		532	
Hana Bank		447	1	36		484	
KT	63	10	2	281		356	
Hanjin Shipping	151	165		4		320	
Samsung Card	50			253		303	
Hyundai Motors	4	54	6	84	(Won) 119	267	
Samsung Capital	190			59		249	
LG Electronics	80	4	4	113	37	238	
Korean Air Lines	113	107	1	4		225	
Hyundai Merchant Marine	91	129				220	
Woori Bank		139		79		218	
Samsung Securities				177		177	
Busan Urban Transit Authority	49			123		172	
Lotte Shopping	130			40		170	
Shinhan Bank		18		137		155	
Total	(Won) 1,408	(Won) 1,289	(Won) 23	(Won) 14,254	(Won) 156	(Won) 17,130	(Won) 487

As of December 31, 2003, ten of these top 20 borrowers were companies belonging to the 29 largest chaebols in Korea.

As of December 31, 2003, we had total exposures of (Won)543 billion to LG Card in the form of loans and debt securities issued by LG Card. Commencing in the second half of 2003, LG Card has been experiencing significant liquidity and asset quality problems. In November 2003, we and other creditor banks of LG Card agreed to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was (Won)437 billion. Certain of LG Card s creditor banks also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corp. (the group holding company), LG Investment & Securities and LG Card as collateral to offset future losses of LG Card. After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 in which the Korea Development Bank would acquire a 26% ownership interest in LG Card and the other creditors would collectively acquire a

73% ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of (Won)953.9 billion for shares constituting

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54.8% of the outstanding share capital of LG Card. The creditors also extended (Won)1.59 trillion of new loans to LG Card, which will subsequently be converted into equity. LG Group also funded an additional (Won)800 billion to LG Card in the first quarter of 2004 (in addition to a (Won)185 billion capital increase as a result of LG Card s issuance of new shares in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. Following the capital write-down, the creditors plan to exchange a further (Won)2,545.5 billion of indebtedness into equity of LG Card. In addition, as LG Card required additional funding, the LG Group and the Korea Development Bank provided (Won)375 billion and (Won)125 billion, respectively, in the first quarter of 2004. In accordance with the plan, in February 2004, we swapped (Won)156 billion of LG Card debt for equity, extended (Won)206 billion of new loans to LG Card, which also has been or will be converted into equity, and purchased (Won)153 billion of commercial paper from LG Card, the proceeds of which LG Card used to repay loans provided by our trust accounts. We also expect to swap an additional (Won)362 billion of LG Card debt (including the new loans provided in February 2004) for equity in the near future. After all such debt-to-equity conversions, we expect to own a 14.2% equity interest in LG Card and to have (Won)489 billion of additional exposure to LG Card.

As of December 31, 2003, we had total exposures of (Won)99 billion to SK Networks (formerly SK Global), of which (Won)89 billion was classified as impaired loans under U.S. GAAP. In addition, in 2003 we wrote off (Won)258 billion of loans, recorded loan loss provisions of (Won)216 billion and reversal of guarantee and acceptance provision of (Won)38 billion and recognized an impairment charge of (Won)7 billion relating to SK Networks debt securities we held. In March 2003, the principal creditor banks of SK Networks commenced corporate restructuring procedures against SK Networks after the company publicly announced that its financial statements had understated its debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion in its financial statements. This admission resulted from a government investigation of a number of SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan. In addition, in November 2003, we and the ten other creditor banks to SK Networks received a warning from the Financial Supervisory Service for failing to provide accurate exposure information to the external auditors of SK Networks in connection with their audit of that company. As of December 31, 2003, our allowance against our loans and guarantees to SK Networks was (Won)2.3 billion, or 2.6% of the aggregate principal amount of our loans and guarantees to SK Networks.

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

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Exposure to Chaebols

As of December 31, 2003, 3.5% of our total exposure was to the 29 largest chaebols in Korea. The following table shows, as of December 31, 2003, our total exposures to the ten chaebol groups to which we have the largest exposure.

Chaebol	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
				(in billions of Won)			
Samsung	(Won) 619	(Won) 5	(Won) 43	(Won) 514	(Won) 115	(Won) 1,296	
LG	790	26	10	186	81	1,093	(Won) 487
Hyundai Motors	96	97	37	159	359	748	
Hanjin	317	273	1	8	2	601	
KT	136	10	18	320		484	
Hanwha	207	8	6		14	235	
Hyundai	92	129	2			223	
SK	72	73	10	45	10	210	89
Lotte	150		1	50		201	
Dongbu	104		22			126	30
Total	(Won) 2,583	(Won) 621	(Won) 150	(Won) 1,282	(Won) 581	(Won) 5,217	(Won) 606

The following table shows information relating to our exposures to former Daewoo Group companies as of December 31, 2003.

Company	Loans: Won currency	Loans: Foreign currency	Equity Securities	Debt Securities	Guarantees and acceptances	Total Exposures	Amounts classified as impaired loans
				(in billions of Won)			
Ssangyong Motors	(Won) 47	(Won) 9	(Won) 13		(Won) 20	(Won) 89	(Won) 56
Daewoo Shipbuilding & Marine Engineering		7			38	45	
Daewoo International Corp.		3	2	(Won) 1	28	34	
Daewoo Engineering & Construction			27	4		31	
Daewoo Electronics Corp.	17		7			24	17
Daewoo Heavy Industries & Machinery	4	5			8	17	
Daewoo Telecom				3		3	
Total	(Won) 68	(Won) 24	(Won) 49	(Won) 8	(Won) 94	(Won) 243	(Won) 73

In August 1999, the principal creditor banks of the former Daewoo Group commenced formal workout procedures with respect to 12 member companies of the Daewoo Group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Currently, these companies are either subject to liquidation proceedings or have been liquidated, under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers. As of December 31, 2003, our exposures to the companies of the former Daewoo Group totaled approximately (Won)243 billion, of which (Won)73 billion was classified as impaired loans. This exposure consisted of (Won)92 billion in loans outstanding, (Won)49 billion in equity securities, (Won)8 billion in corporate bonds and (Won)94 billion in guarantees and acceptances. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

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The following table shows information relating to our total exposure to current and certain former Hyundai Group companies as of December 31, 2003. While certain of these companies were disaffiliated from the Hyundai Group in September 2000 following approval from the Korean Fair Trade Commission, for certain internal purposes, we continued to monitor these companies as a unified Hyundai Group as of December 31, 2003.

Company	Loans: Won currency	Loans: Foreign currency	Equity Securities	Debt Securities	Guarantees and acceptances	Total Exposures	Amounts classified as impaired loans
				(in billions of Won)			
Hyundai Motors	(Won) 4	(Won) 54	(Won) 6	(Won) 84	(Won) 119	(Won) 267	
Hyundai Merchant Marine	91	129				220	
Hyundai Engineering & Construction Co.	33		17	86	3	139	(Won) 33
INI Steel	6	2	1	5	114	128	
Kia Motors Corporation			26	12	88	126	
Hyundai Capital	70			17		87	
Rotem		8		34	23	65	
HORC	2	51				53	
BNG Steel	14	24			5	43	
Hyundai Petrochemical	31					31	
Hyundai Heavy Industries.			2		23	25	
Others (1)	3	10	5	7	11	36	1
Total	(Won) 254	(Won) 278	(Won) 57	(Won) 245	(Won) 386	(Won) 1,220	(Won) 34

(1) Others include Hyundai Hysco, Hyundai Mobis, KEFICO, Dymos Inc., Kia Tigers, Hyundai Autonet, Hyundai Samho Heavy Industries and Hyundai Logistics.

In recent years, a number of former Hyundai Group companies have experienced financial difficulties as a result of, among other things, their liquidity positions. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us. In 2002, we charged off or sold all of our remaining exposures to Hynix Semiconductor, and accordingly had no exposure to that company as of December 31, 2003.

The following table shows information relating to our total exposure to certain SK Group companies as of December 31, 2003.

Company	Loans: Won currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and acceptances	Total Exposures	Amounts classified as impaired loans
				(in billions of Won)			
SK Networks	(Won) 38	(Won) 51		(Won) 10		(Won) 99	(Won) 89
SK Telecom			(Won) 10	32		42	

Dongshin Pharm	16					16	
SK Shipping		13				13	
Segye Corporation		3			(Won) 8	11	
Walker Hill Hotels Limited	10					10	
SKC		6				6	
Daehan City Gas	5					5	
SK Corporation				3		3	
Others (1)	4				1	5	
Total	(Won) 73	(Won) 73	(Won) 10	(Won) 45	(Won) 9	(Won) 210	(Won) 89

(1) Others include SK Gas, Iksan Energy, Chonnam City Gas, Pohang City Gas, Chongju City Gas, Kumi City Gas and SK Life Insurance.

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

Loan Concentration by Industry

The following table shows the aggregate balance of our domestic and foreign corporate loans, by industry concentration, as of December 31, 2003.

Industry	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Manufacturing	(Won) 15,758	31.9%
Retail and wholesale	8,933	18.1
Hotel, leisure or transportation	5,083	10.3
Real estate	6,166	12.5
Construction	6,061	12.3
Finance and insurance	2,044	4.2
Other	5,287	10.7
Total	(Won) 49,332	100.0%

Loan Concentration by Size of Loans

The following table shows the aggregate balances of our loans, by outstanding loan amount, as of December 31, 2003.

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)10 million	(Won) 183	0.13%
Over (Won)10 million to (Won)50 million	3,245	2.22
Over (Won)50 million to (Won)100 million	3,323	2.28
Over (Won)100 million to (Won)500 million	13,435	9.21
Over (Won)500 million to (Won)1 billion	6,113	4.19
Over (Won)1 billion to (Won)5 billion	7,851	5.38
Over (Won)5 billion to (Won)10 billion	1,593	1.09
Over (Won)10 billion to (Won)50 billion	3,953	2.71

Over (Won)50 billion to (Won)100 billion	765	0.52
Over (Won)100 billion	635	0.45
Sub-total	41,096	28.18
Construction loans		
Up to (Won)10 million	9	0.01
Over (Won)10 million to (Won)50 million	186	0.13
Over (Won)50 million to (Won)100 million	257	0.18
Over (Won)100 million to (Won)500 million	1,229	0.84
Over (Won)500 million to (Won)1 billion	591	0.41
Over (Won)1 billion to (Won)5 billion	1,401	0.96
Over (Won)5 billion to (Won)10 billion	467	0.32
Over (Won)10 billion to (Won)50 billion	1,617	1.11
Over (Won)50 billion to (Won)100 billion	185	0.13
Over (Won)100 billion	119	0.07
Sub-total	6,061	4.16

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	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Other corporate loans		
Up to (Won)10 million	7	0.00
Over (Won)10 million to (Won)50 million	111	0.08
Over (Won)50 million to (Won)100 million	111	0.08
Over (Won)100 million to (Won)500 million	241	0.17
Over (Won)500 million to (Won)1 billion	97	0.07
Over (Won)1 billion to (Won)5 billion	151	0.10
Over (Won)5 billion to (Won)10 billion	24	0.01
Over (Won)10 billion to (Won)50 billion		0.00
Sub-total	742	0.51
Credit cards		
Up to (Won)10 million	12,722	8.72
Over (Won)10 million to (Won)50 million	2,491	1.71
Over (Won)50 million to (Won)100 million	11	0.01
Over (Won)100 million to (Won)500 million	16	0.01
Over (Won)500 million to (Won)1 billion	6	0.00
Over (Won)1 billion to (Won)5 billion	43	0.03
Over (Won)5 billion to (Won)10 billion	16	0.01
Over (Won)10 billion to (Won)50 billion	17	0.01
Sub-total	15,322	10.50
Mortgage and home equity loans		
Up to (Won)10 million	2,667	1.83
Over (Won)10 million to (Won)50 million	22,582	15.48
Over (Won)50 million to (Won)100 million	17,855	12.24
Over (Won)100 million to (Won)500 million	9,110	6.25
Over (Won)500 million to (Won)1 billion	254	0.17
Over (Won)1 billion to (Won)5 billion	9	0.01
Sub-total	52,477	35.98
Other consumer loans		
Up to (Won)10 million	10,323	7.08
Over (Won)10 million to (Won)50 million	11,371	7.80
Over (Won)50 million to (Won)100 million	3,010	2.06
Over (Won)100 million to (Won)500 million	3,108	2.13
Over (Won)500 million to (Won)1 billion	697	0.48
Over (Won)1 billion to (Won)5 billion	197	0.14
Over (Won)5 billion to (Won)10 billion	21	0.01
Sub-total	28,727	19.70
Foreign commercial and industrial loans		
Up to (Won)10 million	0	0.00
Over (Won)10 million to (Won)50 million	6	0.00
Over (Won)50 million to (Won)100 million	9	0.01
Over (Won)100 million to (Won)500 million	79	0.05
Over (Won)500 million to (Won)1 billion	60	0.04

Over (Won)1 billion to (Won)5 billion	518	0.36
Over (Won)5 billion to (Won)10 billion	243	0.17
Over (Won)10 billion to (Won)50 billion	399	0.27
Over (Won)50 billion to (Won)100 billion	119	0.07
Sub-total	1,433	0.97
Total	(Won) 145,858	100.00%

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Maturity Analysis

The following table sets out the scheduled maturities (time remaining until maturity) of our loan portfolio as of December 31, 2003. The amounts disclosed are before deduction of allowance for loan losses.

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

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in billions of Won)			
Domestic				
Corporate				
Commercial and industrial	(Won) 32,728	(Won) 6,296	(Won) 2,072	(Won) 41,096
Construction	4,925	1,016	120	6,061
Other corporate	729	13		742
Total-corporate	38,382	7,325	2,192	47,899
Retail				
Mortgage and home equity	11,817	33,651	7,009	52,477
Other consumer	17,207	9,986	1,534	28,727
Total retail	29,024	43,637	8,543	81,204
Credit cards	13,804	1,480	38	15,322
Total domestic	81,210	52,442	10,773	144,425
Foreign				
Corporate				
Commercial and industrial	486	574	373	1,433
Total foreign	486	574	373	1,433
Total gross loans	(Won) 81,696	(Won) 53,016	(Won) 11,146	(Won) 145,858

Interest Rate Sensitivity

The following table shows, as of December 31, 2003, the total amount of loans, which have fixed interest rates and variable or adjustable interest rates.

	(in billions of Won)
Fixed rate (1)	(Won) 25,620
Variable or adjustable rates (2)	120,238
Total gross loans	(Won) 145,858

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

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

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Credit Exposures to Companies in Workout, Corporate Reorganization and Composition

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

Korean law also provides for corporate reorganization proceedings and composition proceedings, both of which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. That restructuring plan is subject to court approval. Corporate reorganization and composition proceedings differ in two principal ways. First, in a corporate reorganization, the court appoints a receiver who has the power, subject to court supervision, to conduct all of the company s business and manage all of the company s property and assets. In composition, however, the company s existing management continues to manage the company and negotiate on its behalf with its major creditors to solve what will generally be interpreted as a temporary insolvency problem. Second, in corporate reorganization, any creditor whose claim against the company arose before the corporate reorganization proceeding began, whether secured or unsecured, may only enforce those claims in the manner and to the extent provided for in the reorganization plan. If a creditor intends to participate in a reorganization plan, it must file its claim with the court within a period fixed by the court. In composition, however, secured creditors are not subject to the composition plan, and are entitled to foreclose on their collateral outside the scope of the composition proceeding. To the extent that a secured creditor has any uncollected deficiency after it forecloses on its collateral, it may then participate in the composition proceeding as an unsecured creditor with respect to that balance.

Currently, all of our workout loans are managed by our corporate restructuring team. Upon approval of the workout plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout or restructuring, corporate reorganization or composition, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

A portion of our loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2003, (Won)1,540 billion or 0.9% of our total loans and debt securities were in workout or restructuring. This included (Won)1,061 billion of loans to and debt securities of large corporate borrowers and (Won)479 billion of loans to and debt securities of small- and medium-sized enterprises.

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The following table shows, as of December 31, 2003, our ten largest exposures that were in workout or restructuring, including composition or court receivership.

Company	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Amounts classified as impaired loans
				(in billions of Won)			
LG Card	(Won) 487			(Won) 56		(Won) 543	(Won) 487
KP Chemical Corporation	69	(Won) 24	(Won) 14			107	93
Ssangyong Motors	47	9	13		(Won) 20	89	56
SK Networks	38	51		10		99	89
Hyundai Engineering & Construction	33		17	86	3	139	33
Daewoo Electronics Corp	17		7			24	17
Mercury Corp	14				7	21	14
Samyang Foods	20					20	20
Shinsewha Department Store	19					19	19
Tongkook Corp.	14	2			1	17	16
Total	(Won) 758	(Won) 86	(Won) 51	(Won) 152	(Won) 31	(Won) 1,078	(Won) 844

Provisioning Policy

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

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

We consider the following corporate loans to be impaired loans:

- loans classified as substandard or below according to the Financial Supervisory Commission s asset classification guidelines;
- loans that are over 30 days past due;
- loans to companies that have received a warning from the Korea Federation of Banks indicating that the company has exhibited difficulties in making timely payments of principal and interest; and
- loans, which are troubled debt restructurings as defined under U.S. GAAP.

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

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

	As of December 31,		
	2001	2002	2003
	(percentages)		
Normal	3.4%	3.2%	3.7%
Precautionary	14.2	12.7	19.5
Substandard	29.4	27.8	23.5
Doubtful	78.6	69.1	69.7
Estimated loss	93.5	91.8	85.8

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

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

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

Loan Aging Schedule

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

As of December 31,	Normal Amount	%	Amount past due 1-3 months	%	Amount past due 3-6 months	%	Amount past due more than 6 months	%	Total Amount

	(in billions of Won, except percentages)								
2001	(Won) 113,778	94.1	(Won) 3,740	3.1	(Won) 961	0.8	(Won) 2,415	2.0	(Won) 120,894
2002	138,527	95.0	3,392	2.3	1,862	1.3	2,051	1.4	145,832
2003	139,317	95.5%	2,441	1.7%	1,527	1.0%	2,573	1.8%	145,858

Non-Accrual Loans and Past Due Accruing Loans

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

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Interest foregone is the interest due on non-accrual loans that has not been accrued in our books of account. For the year ended December 31, 2003, we would have recorded gross interest income of (Won)916 billion compared to (Won)1,033 billion for the year ended December 31, 2002 and (Won)1,182 billion for the year ended December 31, 2001 on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. The amount of interest income on those loans that was included in our net income for the years ended December 31, 2001, 2002 and 2003 was (Won)525 billion, (Won)532 billion and (Won)447 billion, respectively.

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

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

	As of December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Loans accounted for on a non-accrual basis				
Corporate	(Won) 2,414	(Won) 3,976	(Won) 2,578	(Won) 2,883
Consumer	1,734	4,691	9,756	9,298
Sub-total	4,148	8,667	12,334	12,181
Accruing loans which are contractually past due one day or more as to principal or interest (1)				
Corporate	68	106	268	167
Consumer		1,471	2,689	2,481
Sub-total	68	1,577	2,957	2,648
Total	(Won) 4,216	(Won) 10,244	(Won) 15,291	(Won) 14,829

(1) Includes accruing loans which are contractually past due 90 days or more in the amount of (Won)27 billion, (Won)82 billion and (Won)39 billion of corporate loans as of December 31, 2001, 2002 and 2003, respectively.

Troubled Debt Restructurings

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

	As of December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Loans, which are classified as troubled debt restructurings	(Won) 2,691	(Won) 2,206	(Won) 1,662	(Won) 1,338

For 2003, interest income that would have been recorded under the original contract terms of restructured loans amounted to (Won)136 billion, out of which (Won)118 billion was reflected as interest income during 2003.

Potential Problem Loans

As of December 31, 2003, we had (Won)2,353 billion of loans which were current as to payment of principal and interest but where there existed serious doubt as to the ability of the borrower to comply with repayment terms in the near future. These amounts were classified as impaired and included as such in our calculation of loan loss allowance under U.S. GAAP.

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Other Problematic Interest Earning Assets

We have certain other interest earning assets received in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2002, we had debt securities with an amortized cost of (Won)79 billion and a market value of (Won)93 billion on which interest was past due. As of December 31, 2003, we did not have any debt securities on which interest was past due.

Non-Performing Loans

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

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

	As of December 31,			
	2000	2001	2002	2003
	(in billions of Won, except percentages)			
Total non-performing loans	(Won) 1,762	(Won) 3,376	(Won) 3,912	(Won) 4,116
As a percentage of total loans	3.0%	2.8%	2.7%	2.8%

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

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

Analysis of Non-Performing Loans

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

As of December 31,

	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	(Won) 1,487	44.0%	(Won) 1,284	32.8%	(Won) 1,376	33.4%
Construction	402	11.9	403	10.3	264	6.4
Lease financing	20	0.6				
Other corporate	89	2.6	23	0.6	13	0.4
Total corporate	1,998	59.1	1,710	43.7	1,653	40.2
Retail						
Mortgage and home equity	614	18.2	699	17.9	1,150	27.9
Other consumer	432	12.8	577	14.8	463	11.4
Total retail	1,046	31.0	1,276	32.7	1,613	39.3
Credit cards	218	6.5	905	23.1	723	17.4
Total domestic	3,262	96.6	3,891	99.5	3,989	96.9
Foreign						
Corporate						
Commercial and industrial	114	3.4	21	0.5	127	3.1
Total foreign	114	3.4	21	0.5	127	3.1
Total non-performing loan	(Won) 3,376	100.0%	(Won) 3,912	100.0%	(Won) 4,116	100.0%

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Top Twenty Non-Performing Loans

As of December 31, 2003, our twenty largest non-performing loans accounted for 4.2% of our total non-performing loan portfolio. The following table shows, as of December 31, 2003, certain information regarding our twenty largest non-performing loans.

	Industry	Gross principal outstanding	Allowance for loan losses
		(in billions of Won)	
Borrower A	Construction	(Won) 27	
Borrower B	Finance	22	
Borrower C	Textile	12	
Borrower D	Finance	12	
Borrower E	Leisure	9	
Borrower F	Retail, wholesale	8	
Borrower G	Construction	8	(Won) 1
Borrower H	Construction	7	3
Borrower I	Other real estate	7	
Borrower J	Manufacturing	6	1
Borrower K	Manufacturing	6	1
Borrower L	Textile	6	
Borrower M	Retail, wholesale	6	
Borrower N	Service hotel	5	2
Borrower O	Retail, wholesale	5	
Borrower P	Service restaurant	5	4
Borrower Q	Other	5	
Borrower R	Construction	5	
Borrower S	Construction	5	1
Borrower T	Other	5	
Total		(Won) 171	(Won) 13

Most of our loans to companies in workout or restructuring, including LG Card and SK Networks, were not classified as non-performing as of December 31, 2003 because such loans had been rescheduled and payments on such rescheduled loans were not past due by more than 90 days.

Non-Performing Loan Strategy

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

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

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

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

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

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

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

In addition, we use the services of a loan collection agency called KB Credit Information Co., Ltd. (formerly known as Kookeun Credit Information Co., Ltd.) of which we own 66.3% of the outstanding share capital and whose employees own the remaining share capital. KB Credit Information Co., Ltd. receives payments from recoveries made on charged-off loans and loans that are overdue for over six months (three months in the case of credit card loans). KB Credit Information Co., Ltd. has over 1,000 employees, including loan recovery experts, legal experts and management employees. The fees that it receives are based on the amounts of non-performing and charged off loans that are recovered. The amount recovered was (Won)154 billion both in 2001 (which included amounts recovered prior to the merger) and 2002 and (Won)72 billion in 2003.

Methods for resolving non-performing loans include the following:

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

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

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

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

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

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

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

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

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

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

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

For loans in arrears for over one year:

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

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

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

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

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

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

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

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

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

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

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to the Korea Asset Management Corporation if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of the Korea Asset Management Corporation to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2003, the aggregate principal amount of loans sold that are subject to such repurchase rights was (Won)8.3 billion. At December 31, 2003, we recorded a liability of (Won)0.4 billion relating to those loans, representing our estimated obligation to make repurchases under the put option.

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Allocation of Allowance for Loan Losses

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

	As of December 31,							
	2000		2001		2002		2003	
	(in billions of Won, except percentages)							
Domestic								
Corporate								
Commercial and industrial	(Won) 1,474	61.5%	(Won) 1,830	52.2%	(Won) 1,525	29.4%	(Won) 1,644	28.4%
Construction	174	7.3	312	8.9	423	8.1	332	5.8
Lease financing	97	4.1	122	3.5				
Other corporate	108	4.5	169	4.8	34	0.7	28	0.5
Total corporate	1,853	77.4	2,433	69.4	1,982	38.2	2,004	34.7
Retail								
Mortgage and home equity	86	3.6	93	2.7	63	1.2	68	1.2
Other consumer	146	6.1	236	6.7	483	9.3	1,102	19.0
Total retail	232	9.7	329	9.4	546	10.5	1,170	20.2
Credit cards	115	4.8	614	17.5	2,597	50.0	2,537	44.0
Foreign (1)	194	8.1	132	3.7	70	1.3	61	1.1
Total allowance for loan losses	(Won) 2,394	100.0%	(Won) 3,508	100.0%	(Won) 5,195	100.0%	(Won) 5,772	100.0%

(1) Consists of loans to corporations.

Our total allowance for loan losses was (Won)3,508 billion as of December 31, 2001. During 2002, the allowance for loan losses increased by (Won)1,687 billion, or 48.1%, to (Won)5,195 billion as of December 31, 2002. During 2003, the allowance for loan losses increased by (Won)577 billion, or 11.1%, to (Won)5,772 billion as of December 31, 2003. As of December 31, 2001, 2002 and 2003, 73.1%, 39.5% and 35.8% of our total allowance for loan losses, respectively, were in respect of our corporate loan portfolio (including all foreign loans), which reflects our assessment of the financial difficulties experienced by our corporate borrowers in connection with the economic problems in Korea, which began in mid-1997 and, in 2002 and 2003, increasing delinquencies in our credit card and retail loan portfolios.

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Analysis of Allowance for Loan Losses

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

	Year ended December 31,			
	2000	2001	2002	2003
	(in billions of Won, except percentages)			
Balance at the beginning of the period	(Won) 2,623	(Won) 2,394	(Won) 3,508	(Won) 5,195
Amounts charged against income	262	1,264	3,909	7,192
Allowance relating to loans repurchased from the Korea Asset Management Corporation	26	8	6	6
Allowance relating to loans acquired in the merger with H&CB		1,279	(164)	0
Gross charge-offs				
Domestic:				
Corporate				
Commercial and industrial	372	690	486	1,056
Construction	39	22	65	80
Lease financing	82	80		0
Other corporate	56	175	16	13
Retail				
Mortgage and home equity	7	7	29	34
Other consumer	53	179	209	745
Credit cards	54	394	1,527	5,290
Foreign:	67	98	115	59
Total gross charge-offs	(730)	(1,645)	(2,447)	(7,277)
Recoveries:				
Domestic:				
Corporate				
Commercial and industrial	117	74	117	99
Construction	8	4	2	7
Other corporate	2	3	29	16
Retail				
Mortgage and home equity	26	16	9	5
Other consumer	11	26	53	59
Credit cards	47	81	155	452
Foreign	2	4	18	18
Total recoveries	213	208	383	656
Net charge-offs	(517)	(1,437)	(2,064)	(6,621)
Balance, at the end of the period	(Won) 2,394	(Won) 3,508	(Won) 5,195	(Won) 5,772
Ratio of net charge-offs during the period to average loans outstanding during the period	1.0%	2.0%	1.6%	4.5%

Loan Charge-Offs

Basic Principles

We attempt to minimize loans to be charged off by adhering to a sound credit approval process based on credit risk analysis prior to extending loans and a systematic management of outstanding loans. However, if charge-offs are necessary, we charge off loans subject to our charge-off policy at an early stage in order to maximize accounting transparency, to minimize any waste of resources in managing loans which have a low probability of being collected and to reduce our non-performing loan ratio.

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Loans To Be Charged Off

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

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

Procedure for Charge-off Approval

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

Treatment of Loans Charged Off

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

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

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

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

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In 2002, the Financial Supervisory Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. As of February 2004, 188 financial institutions in Korea were parties to this agreement. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)300 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit.

Furthermore, in March 2004, the Korean National Assembly passed the Individual Debtor Rehabilitation Law, which becomes effective in September 2004. Under this law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding a threshold to be determined by the Supreme Court (within the maximum amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt) may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

In addition, in May 2004, the Korean government implemented a so-called bad bank program for delinquent consumer debt by establishing Badbank Harmony Co., Ltd., pursuant to an agreement among approximately 620 financial institutions in Korea. Badbank Harmony, whose assets are managed by Korea Asset Management Corporation, was established by Korea Asset Management Corporation with paid-in capital of (Won)100 million and will be further capitalized by contributions from various financial institutions in Korea, including us. The program is available to individual borrowers with payment obligations to two or more financial institutions that are overdue by one month or more (of which at least one payment obligation is overdue by six months or more) in an aggregate amount less than (Won)50 million as of March 10, 2004. Under the program, during a three-month period starting from May 20, 2004, qualified credit delinquent persons may restructure their debt and rehabilitate their credit by obtaining a long-term, low-interest loan from Badbank Harmony and using the proceeds of such loan to pay off their existing debts.

Investment Portfolio

Investment Policy

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

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

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

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

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deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Shareholdings in Other Companies.

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

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

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

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Book Value and Market Value

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

	As of December 31,					
	2001		2002		2003	
	Book Value	Market Value	Book Value	Market Value	Book Value	Market Value
	(in billions of Won)					
Available-for-sale securities						
Equity securities	(Won) 3,552	(Won) 3,552	(Won) 3,452	(Won) 3,452	(Won) 764	(Won) 764
Debt securities						
Korean treasury securities and government agency securities	3,675	3,675	4,096	4,096	4,996	4,996
Debt securities issued by financial institutions	2,190	2,190	2,649	2,649	7,900	7,900
Corporate debt securities	2,620	2,620	2,068	2,068	1,930	1,930
Debt securities issued by foreign governments	29	29	20	20	39	39
Asset-backed securities	258	258	197	197	60	60
Total Available-for-sale	12,324	12,324	12,482	12,482	15,689	15,689
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	8,915	9,162	8,735	9,029	5,227	5,377
Debt securities issued by financial institutions	1,712	1,720	933	942	298	302
Corporate debt securities	655	671	313	341	132	142
Debt securities issued by foreign governments	53	52	49	49		
Asset-backed securities	1,890	1,910	1,104	1,119	480	481
Total Held-to-maturity	13,225	13,515	11,134	11,480	6,137	6,302
Trading securities						
Equity securities	4,193	4,193	3,898	3,898	175	175
Debt securities						
Korean treasury securities and government agency securities	1,229	1,229	840	840	1,419	1,419
Debt securities issued by financial institutions	910	910	784	784	912	912
Corporate debt securities	175	175	113	113	105	105
Debt securities issued by foreign governments			40	40	129	129
Total Trading	6,507	6,507	5,675	5,675	2,740	2,740

Total securities	(Won) 32,056	(Won) 32,346	(Won) 29,291	(Won) 29,637	(Won) 24,566	(Won) 24,731

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Maturity Analysis

The following table categorizes our debt securities by maturity and weighted average yield as of December 31, 2003.

	As of December 31, 2003											
	Within 1 year	**Weighted average yield (1)**	**Over 1 but within 5 years**	**Weighted average yield (1)**	**Over 5 but within 10 years**	**Weighted average yield (1)**	**Over 10 years**	**Weighted average yield (1)**	**Securities not due at a single maturity**	**Weighted average yield (1)**	**Total**	**Weighted average yield (1)**
	(in billions of Won, except percentages)											
Available-for-sale securities												
Korean treasury securities and government agencies	(Won) 529	5.32%	(Won) 4,237	2.18%	(Won) 225	2.28%	(Won)		5	2.54%	(Won) 4,996	2.52%
Debt securities issued by financial institutions	4,674	1.68	3,079	1.55	147	7.78					7,900	1.74
Corporate debt securities	773	4.57	1,136	3.60	6	1.12	15	6.55%		6.75	1,930	4.01
Debt securities issued by foreign governments			39	5.87							39	5.87
Asset-backed securities	40	22.10	20	4.07							60	16.07
Total (2)	(Won) 6,016	2.50%	(Won) 8,511	2.16%	(Won) 378	4.40%	(Won) 15	6.55%	(Won) 5	2.60%	(Won) 14,925	2.36%
Held-to-maturity securities												
Korean treasury securities and government agencies	(Won) 1,404	5.98%	(Won) 3,583	6.82%	(Won) 232	5.49%	(Won)		(Won) 8	11.41%	(Won) 5,227	6.54%
Debt securities issued by financial institutions	215	5.69	83	6.92							298	6.03
Corporate debt securities	66	6.06	65	7.27					1	8.99	132	6.67
Asset-backed securities	394	3.42	66	6.53	20	4.12					480	3.87
Total	(Won) 2,079	5.47%	(Won) 3,797	6.82%	(Won) 252	5.38%	(Won)		(Won) 9	11.26%	(Won) 6,137	6.31%
Trading securities												
	(Won) 15	2.43%	(Won) 1,394	1.40%	(Won) 10	0.23%	(Won)		(Won)		(Won) 1,419	1.41%

Korean treasury securities and government agencies												
Debt securities issued by financial institutions	88	3.09	824	1.21							912	1.39
Corporate debt securities	20	4.06	85	2.28							105	2.61
Asset-backed securities	80	4.68	49	4.74							129	4.71
Total	(Won) 203	3.76%	(Won) 2,352	1.44%	(Won) 10	0.23%	(Won)		(Won)		(Won) 2,565	1.62%

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

(2) As of December 31, 2003, corporate debt securities of available-for-sale securities not due at a single maturity amounted to approximately (Won)78 million.

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Concentrations of Risk

As of December 31, 2003, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10.0% of our stockholders equity at such date, which was (Won)6,568 billion.

	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
Bank of Korea	(Won) 7,429	(Won) 7,430
Korean government	6,690	6,771
Korea Deposit Insurance Corporation	3,726	3,788
Korea Development Bank	659	663
Total	(Won) 18,504	(Won) 18,652

Except for the Korean government, all of these issuers are controlled by the government.

Funding

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

Our primary funding strategy has been to achieve low-cost funding by increasing the average balances of low-cost retail deposits, in particular demand deposits and savings deposits. We also have focused our marketing efforts on higher net worth individuals, who account for a significant portion of the assets in our retail deposit base. Customer deposits accounted for 76.3% of our total funding as of December 31, 2001, 73.5 % of total funding as of December 31, 2002 and 77.6% of total funding as of December 31, 2003.

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

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

Deposits

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

	2001		2002		2003	
	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid	Average balance (1)	Average rate paid
	(in billions of Won, except percentages)					
Demand deposits:						
Non-interest bearing	(Won) 1,871		(Won) 2,934		(Won) 2,961	
Interest-bearing	499	1.60%	598	0.67%	667	0.30%
Time deposits:						
Certificates	2,023	6.08	2,120	4.81	4,068	4.45
Other time deposits	33,231	7.21	66,454	4.91	67,733	4.38
Savings deposits	23,665	1.88	35,206	1.17	38,368	0.91
Mutual installment deposits (2)	7,238	7.78	12,235	6.24	11,946	5.37
Average total deposits	(Won) 68,527	5.16%	(Won) 119,547	3.90%	(Won) 125,743	3.29%

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

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

Certificates of Deposit and Other Time Deposits

The following table presents the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had a fixed maturity in excess of (Won)100 million as of December 31, 2003.

	Certificates of deposit	Other time deposits	Mutual Installment deposits	Total
		(in billions of Won)		
Maturing within three months	(Won) 3,880	(Won) 6,568	(Won) 328	(Won) 10,776
After three but within six months	1,586	5,169	194	6,949
After six but within 12 months	797	11,585	326	12,708
After 12 months		1,331	502	1,833
Total	(Won) 6,263	(Won) 24,653	(Won) 1,350	(Won) 32,266

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

Long-term debt

The aggregate amount of contractual maturities of all long-term debt at December 31, 2003 was as follows:

	(in billions of Won)
Due in 2004	(Won) 4,901
Due in 2005	2,973
Due in 2006	1,971
Due in 2007	1,294
Due in 2008	2,397

Thereafter		3,064
Gross long-term debt		16,600
Plus: Premium		7
Total long-term debt, net	(Won)	16,607

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Short-term borrowings

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

	As of and for the year ended December 31,		
	2001	2002	2003
	(in billions of Won, except percentages)		
Call Money			
Year-end balance	(Won) 2,701	(Won) 306	(Won) 225
Average balance (1)	960	1,803	1,802
Maximum balance	3,439	2,452	2,959
Average interest rate (2)	4.06%	3.94%	3.61%
Year-end interest rate	0.58-5.55%	0.25-5.85%	0.88-5.15%
Borrowings from the Bank of Korea (3)			
Year-end balance	(Won) 1,397	(Won) 709	(Won) 1,005
Average balance (1)	1,152	1,337	1,020
Maximum balance	1,397	1,738	1,292
Average interest rate (2)	3.30%	2.47%	2.45%
Year-end interest rate	2.50-8.00%	2.50%	2.5%
Other short-term borrowings (4)			
Year-end balance	(Won) 9,415	(Won) 15,147	(Won) 11,890
Average balance (1)	7,717	9,077	13,250
Maximum balance	9,415	15,147	14,239
Average interest rate (2)	6.74%	5.38%	4.32%
Year-end interest rate	0.3-17.69%	0.02-17.69%	0.15-17.69%

(1) Average outstanding balances have been calculated using quarterly averages.
(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured with the exception of borrowings from the Bank of Korea. These short-term borrowings are secured by government securities totaling (Won)1,230 billion as of December 31, 2003.

Supervision and Regulation

Legal and Regulatory Framework

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

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

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

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

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

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions;

suspensions of a part or all of business operation; or

assignments of contractual rights and obligations relating to financial transactions.

Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires nationwide banks, such as us, to maintain a minimum paid-in capital of (Won)100 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency

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position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Bank Act, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of stockholders equity, capital surplus, retained earnings, unissued stock dividends and hybrid Tier I capital instrument. Tier II capital (supplementary capital) consists of revaluation reserves, gain on valuation of investment in equity securities, allowance for loan losses set aside for loans classified as normal or precautionary, perpetual subordinated debt, cumulative preferred shares and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Supervisory Commission requirements that have been formulated based on Bank of International Settlements, or BIS, standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In November 2002, the Financial Supervisory Service amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans. As a result, for certain home mortgage loans extended after November 13, 2002, Korean banks must apply a risk-weight ratio of 60% if either of the following two conditions are satisfied, and a risk-weight ratio of 70% if both conditions are satisfied:

(1) if the home mortgage loans are overdue for at least 30 consecutive days as of the date of calculating the bank s BIS capital adequacy ratio, or there were at least 30 overdue days during the one year period preceding the date on which the bank s BIS capital adequacy ratio is calculated; and

(2) the borrower s debt ratio (which is the ratio of the borrowers total outstanding borrowings, including borrowings from other financial institutions, to the borrower s annual income) exceeds 250%.

For all other home mortgages, the bank must apply a 50% risk-weight ratio.

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including confirmed guarantees and acceptances and trust account loans) in an aggregate amount covering not less than:

- 0.5% of normal credits, excluding confirmed guarantees and acceptances (or 0.75% in the case of normal credits comprising loans to individuals and households, and 1% in the case of normal credits comprising outstanding credit card receivables and card loans);

- 2% of precautionary credits, excluding confirmed guarantees and acceptances (or 8% in the case of precautionary credits comprising loans to individuals and households, and 12% in the case of precautionary credits comprising outstanding credit card receivables and card loans);

- 20% of substandard credits;

50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and

100% of estimated loss credits.

See Recent Regulations Relating to Retail Household Loans and Credit Card Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Bank Act. Banks may not invest an amount exceeding 60% of their Tier I and Tier II

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capital (less any capital deductions) in stocks and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea. The Financial Supervisory Commission also requires each Korean bank to:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 0%;
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and
- submit monthly reports with respect to the maintenance of these ratios.

The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 5% of average balances for Won currency demand deposits outstanding;
- 1% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and
- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to savings deposits outstanding and a 5% minimum reserve ratio is applied to demand deposits. A 1% minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, the sum of large exposures by a bank in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

Recent amendments to the Bank Act, which became effective on July 28, 2002, strengthened restrictions on extending credits to a major shareholder. A major shareholder is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank s total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial business group companies as described above), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act.

Under these amendments, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholder s shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank s Tier I and Tier II capital (less any capital deductions).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank s interest expense.

Lending to Small- and Medium-Sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or

- lower the bank s credit limit.

Disclosure of Management Performance

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the Financial Supervisory Commission requires commercial banks to make mandatory public disclosures of the following:

(1) unprofitable loans (as defined by the Financial Supervisory Service) made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), except where the loan exposure to that group is not more than (Won)4 billion;

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

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

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Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

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

Recent Regulations Relating to Retail Household Loans

The Financial Supervisory Commission recently implemented a number of changes to the mechanisms by which a bank evaluates and report its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the Financial Supervisory Commission and the Financial Supervisory Service increased the minimum provisioning requirements for retail household loans. These requirements, set forth in the following table, became effective in the second quarter of 2002.

Asset Quality Classification	**Provisioning Ratio on Retail Household Loans**	
	Before	**Current**
Normal	0.5% or above	0.75% or above
Precautionary	2.0% or above	8.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	50.0% or above	55.0% or above

Estimated loss	100.0%	100.0%

In addition, due to a rapid increase in loans secured by homes and other forms of housing, the Financial Supervisory Commission and the Financial Supervisory Service implemented regulations designed to reduce the rate of increase in these loans. Effective from the third quarter of 2002, the Financial Supervisory Commission and the Financial Supervisory Service raised minimum provisioning requirements for new loans secured by housing located in the areas of wide-spread real property speculation, with respect to the portion of the new loan that exceeds the loan-to-value ratio of 60%, to 1.0% from 0.75% for normal loans and to 10.0% from 5.0% for precautionary loans. They also raised the minimum provisioning requirements for household loans classified as precautionary from 5.0% to 8.0% with effect from the fourth quarter of 2002. In a further effort to curtail extension of new or refinanced loans secured by housing, the Financial Supervisory Commission and the Financial Supervisory Service subsequently:

- reduced the average loan-to-value ratio (the aggregate principal amount of credit over the appraisal value of collateral) that Korean commercial banks must maintain for new loans secured by housing located nationwide to below 60%; and

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

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More recently, on November 8, 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines that:

- require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;
- introduce sharing of information on multiple housing loans to a single borrower within the financial industry;
- require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and
- discourage the use of incentive-based compensation systems by Korean commercial banks.

Furthermore, on October 29, 2003, the Financial Supervisory Commission announced more stringent guidelines that require Korean commercial banks to maintain loan-to-value ratios equal to or less than 40% for new loans secured by real estate located in the areas of wide-spread real property speculation.

See Risk Factors Risks relating to government regulation and policy Government regulation of consumer lending, particularly mortgage and home equity lending, has become more stringent, which may hurt our consumer banking operations.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60% of the sum of the bank s Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

- that corporation engages in a category of financial businesses set forth by the Financial Supervisory Commission; or
- the acquisition is necessary for the corporate restructuring of the corporation and is approved by the Financial Supervisory Commission.

In the above exceptional cases, a bank must satisfy either of the following requirements:

- the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

- the acquisition satisfies the requirements determined by the Financial Supervisory Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the Korea Deposit Insurance Corporation and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank s outstanding voting shares, unless they obtain the approval of the Financial Supervisory Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares, and in excess of 10%, 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Supervisory Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor) may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Supervisory Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Supervisory Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the Korea Deposit Insurance Corporation on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.025% of insurable deposits for each quarter. If the Korea Deposit Insurance Corporation makes a payment on an insured amount, it will acquire the depositors claims with respect to that payment amount. The Korea Deposit Insurance Corporation insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003 and therefore the whole amount deposited in such accounts is protected.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Law, a bank s net overpurchased and oversold positions may not exceed 20% of its shareholders equity as of the end of the prior month.

Credit Card Business

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

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

Asset Classifications	Provisioning Ratio
Normal	1.0% or above
Precautionary	12.0% or above
Substandard	20.0% or above
Doubtful	60.0% or above
Estimated loss	100%

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

Trust Business

A bank must obtain approval from the Financial Supervisory Commission to engage in trust businesses. The Trust Act and the Trust Business Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank, which requires that banks engaged in both banking and trust businesses must maintain two separate accounts and two separate sets of records; and

- depositors and other general creditors cannot obtain the assets comprising the trust accounts if the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees and commissions from each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed. In addition, a trustee bank must deposit with a court an amount equal to 0.05% of its paid-in capital each year until the aggregate amount of those deposits equals 10% or more of its paid-in capital. If that bank breaches its duty of care as a trustee and causes losses to its customers, the court deposits are available as compensation.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. Under the Indirect Investment Asset Management Business Act, a bank will not be permitted to offer current unspecified money trust account products after July 5, 2004 (except under certain limited circumstances) and will be required to qualify as an asset management company by such date in order to be able to manage any investment trust products. Investment trust products will need to be established pursuant to a trust deed entered into between an asset management company and a trustee.

In the event that a bank qualifies and operates as an asset management company, a trustee or a custodian under the Indirect Investment Asset Management Business Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business and the trustee or custodian business. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;

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prohibitions against the joint use or sharing of computer equipment or office equipment; and

prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, a bank is also required to establish an Indirect Investment Asset Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Finance and Economy to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Supervisory Commission to enter the securities business, which is governed by regulations under the Korean Securities and Exchange Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Item 4C. ***Organizational Structure***

We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our operating subsidiaries that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2003, including contribution to our total assets, net income, operating income and stockholders equity.

Subsidiary	Percentage of Ownership	Total Assets	Stockholders Equity	Operating Income	Net Income
			(in millions of Won)		
KB Data Systems Corp.	99.98%	(Won) 17,899	(Won) 14,635	(Won) 1,352	(Won) 1,004
KB Futures Co., Ltd.	99.98	36,621	25,526	2,011	1,409
KB Investment Co., Ltd.	99.89	120,508	102,314	4,802	5,680
KB Asset Management Co., Ltd.	80.00	61,597	56,299	14,809	10,476
KB Real Estate Trust Co., Ltd.	99.99	281,047	121,455	16,858	10,855
KB Credit Information Co., Ltd.	76.74	25,173	17,767	5,384	3,587
Kookmin Finance Hong Kong Ltd.	100.00	211,079	59,295	(3,156)	(3,156)
Kookmin Bank International Ltd.	100.00	243,246	68,511	3,770	2,698
Kookmin Luxembourg S.A.	100.00	297,812	19,987	24,770	24,764

Further information regarding our subsidiaries is provided below.

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

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

KB Investment Co., Ltd. was established in Korea in March 1990 to invest in and finance small- and medium-sized enterprises. KB Investment was merged with Frontier Investment Co., Ltd. and Kookmin Venture Capital Co., Ltd. effective as of December 31, 2001 and June 27, 2002, respectively. KB Investment was formerly known as Kookmin Bank Venture Capital Co., Ltd. until May 25, 2002.

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

KB Real Estate Trust Co., Ltd. was established in December 1996 to provide real estate development and brokerage services and assist small- and medium-sized construction companies by managing trusts

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related to the real estate industry. KB Real Estate Trust was formerly known as Jooeun Real Estate Trust Co., Ltd. until September 16, 2002.

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

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

Kookmin Bank International Ltd. was established in the United Kingdom in November 1991 to provide a broad range of corporate banking services.

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

Other Subsidiaries. For the year ended December 31, 2003, we derived revenues of (Won)969 billion and net loss of (Won)558 billion from our remaining subsidiaries, which individually do not account for a significant amount of our business.

Item 4D. ***Property, Plants and Equipment***

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

Type of Facility/Building	Location	Area (square meters)	Site (if different)
Registered office and Corporate Headquarters	9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703	23,084	
Headquarters building	36-3, Yoido-dong, Youngdeungpo-gu, Seoul 150-758	39,650	
Headquarters building	Yoido, Seoul	33,616	
Headquarters building	Yoido, Seoul	11,372	
Headquarters building	Jongro-gu, Seoul	31,114	
Headquarters building	Kangnam-gu, Seoul	24,477	
Training Institute	Ilsan	12,223	207,659
Training Institute	Daechon	7,363	4,158
Training Institute	Sokcho	14,029	15,584
Training Institute	Cheonan	39,384	196,649
IT Center	Seoul	17,270	
IT Center	Seoul	14,231	

As of December 31, 2003, we had a countrywide network of 1,136 branches and sub-branches. Approximately one-third of these facilities are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in Hong Kong, Luxembourg and the United Kingdom and branches in Tokyo in Japan, Auckland in New Zealand and New York in United States. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2003 was (Won)1,924 billion.

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Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5A. ***Operating Results***

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP. The financial information below for each of 2003 and 2002 reflects the inclusion of the results of operations of former H&CB for the entire year, while the financial information for 2001 reflects such operations only for the two months from the date of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001.

Trends in the Korean Economy

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

From 2000 to 2003, financial and economic conditions generally improved in Korea. The general level of interest rates decreased, consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, the Korean government s structural reforms in the corporate sector have not been fully implemented and the large corporate sector of the economy is still experiencing difficulties. For example, in March 2003 the principal creditor banks (including us) of SK Networks (formerly SK Global), a member company of the SK Group, commenced corporate restructuring procedures against SK Networks after the company publicly announced that its financial statements understated its debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion. We wrote off (Won)258 billion of loans, recorded loan loss provisions of (Won)216 billion and reversal of guarantee and acceptance provision of (Won)38 billion and recognized securities impairment losses of (Won)7 billion in 2003 in respect of our exposures to SK Networks. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio. Furthermore, substantial growth in lending to small- and medium-sized enterprises has been accompanied by increasing delinquencies and a deterioration in overall asset quality, which is expected to continue. In 2003, under Korean GAAP, we recorded charge-offs of (Won)560 billion and provisions of (Won)610 billion in respect of our loans to small- and medium-sized enterprises. See Item 3D. Risk Factors Risk relating to our small- and medium-sized enterprise loan portfolio.

In addition, financial institutions in Korea, including banks, credit card companies and commercial finance companies, have made significant investments and engaged in aggressive marketing in the consumer loan and credit card businesses to increase the volume of such loans, as competition in these areas in Korea has increased significantly in recent years. The rapid growth in consumer lending and credit card balances and loans has been accompanied by increasing delinquencies, loan loss provisions, non-performing loans and charge-offs, which has continued. In 2003, we recorded charge-offs of (Won)5,290 billion and provisions of (Won)4,752 billion in respect of our credit card portfolio, which contributed significantly to our net loss, and we expect to record additional charge-offs and provisions during 2004, which will have a negative impact on our results of operations. See Item 3D. Risk Factors Risks relating to our retail credit portfolio. In particular, credit card delinquencies continued to rise during 2003 and the first quarter of 2004, which has led to financial difficulties for credit card companies. For example, in response to the liquidity problems that have been affecting LG Card, we and other creditor banks of LG Card agreed in November 2003 to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations, and also agreed to extend the maturity of a portion of

LG Card s debt coming due in 2003 for one year. After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004. In May 2004, LG Card completed a capital write-down of 97.7% as outstanding common shares and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. We recorded provisions of (Won)126 billion and recognized securities impairment losses of (Won)20 billion in 2003 in respect of our exposures to LG Card. See Item 3D. Risk Factors Risks relating to our large corporate loan portfolio We have exposure to a number of Korean credit card companies and recent and future difficulties faced by these companies may have an adverse impact on us.

As a result of growing concerns regarding the high levels of consumer borrowing and credit card usage in Korea and the deterioration in the retail lending and credit card portfolios of Korean financial institutions, in 2002 and 2003, the Korean government implemented various changes to the regulations governing loan loss provisioning for consumer loans and credit card receivables as well as credit card operations generally. See Item 3D. Risk Factors Risks relating to government regulation and policy and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

As a result of these unfavorable developments, as well as factors such as high oil prices, the weakness of the economy in parts of the world, the war in Iraq and its aftermath and heightened tensions with North Korea, the economic outlook for Korea in 2004 is uncertain.

Financial Impact of the Merger with H&CB

Under U.S. GAAP, we accounted for the merger with H&CB under the purchase method of accounting, with the former Kookmin Bank being the acquiring entity for accounting purposes. Our results of operations for each of the years ended December 31, 2002 and 2003 include the operations of H&CB for all of 2002 and 2003, respectively, unlike the figures for our results of operations for the year ended December 31, 2001 to which these figures are compared, which include such operations only from November 1, 2001. In addition, our assets, liabilities and stockholders equity at December 31, 2001 fully reflect the merger. You should consider the following discussion and analysis with these facts in mind. See Item 4A. History and Development of the Company The Merger of the former Kookmin Bank and H&CB for additional information regarding the merger.

We recorded the assets and liabilities of H&CB at fair value. The total fair value of the assets we acquired was (Won)68,347 billion, and the total fair value of the liabilities we assumed was (Won)64,858 billion. We also recorded two intangible assets: one related to core deposit relationships and the other related to credit card relationships amounting to (Won)670 billion and (Won)222 billion, respectively, before the allocation of negative goodwill as discussed below. The core deposit intangible asset reflects the value of the acquired base of demand and savings deposit accounts of H&CB which we can expect to maintain for an extended period because of generally stable customer relationships. This intangible asset will be amortized in proportion to the estimated run-off of depositors on an accelerated basis over a weighted average life of approximately eight years. The credit card relationship intangible asset reflects the value of the acquired credit card relationships of H&CB. This intangible asset will be amortized on an accelerated basis over a weighted average life of approximately six years. In addition, we periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off. We performed an impairment test of the credit card intangible asset in 2002 and 2003, and there was no impairment as of December 31, 2002 and 2003, respectively.

For accounting purposes, the purchase price for H&CB was (Won)2,945 billion, representing the sum of the market value of our common stock issued to H&CB s stockholders of (Won)2,897 billion (calculated based on the average of the closing prices of the former Kookmin Bank s common stock on the Korea Stock Exchange during the period two days before and after April 23, 2001, the date of the merger agreement) and acquisition expenses of (Won)48 billion. The excess of the fair value of H&CB s net assets amounted to (Won)544 billion and represented

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negative goodwill, which we allocated on a pro rata basis to premises and equipment and two intangible assets acquired.

The overall size and composition of our assets and liabilities and our income and expenses changed as a result of the merger with H&CB. In particular, within our loan portfolio, the proportion of the total outstanding balance and the total interest income related to our consumer loans, including credit card balances, has increased substantially relative to the balances of and interest income from our corporate loans. For example, consumer loans, including credit card balances, as a percentage of total loans increased from 41.3% as of December 31, 2000 to 63.9% as of December 31, 2001. This increase was in large part attributable to the merger, as a result of which we acquired (prior to deducting allowance for loan losses) (Won)21,768 billion of mortgage loans, (Won)15,100 billion of installment loans to individuals and other consumer loans and (Won)4,222 billion of credit card balances, compared to (Won)6,179 billion of commercial and industrial loans as of the acquisition date. Due to the increase in the amount and relative proportion of our consumer loans, including credit card balances, as well as in the amount of our retail deposits, resulting from the merger, our exposure to economic changes affecting the consumer sector in Korea and the relative importance of that sector to our business, results of operations and financial condition have increased significantly.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows for the dates indicated, the stock price index of all equities listed on the Korea Stock Exchange as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	Dec. 31, 2000	June 30, 2001	Dec. 31, 2001	June 30, 2002	Dec. 31, 2002	June 30, 2003	Dec. 31, 2003
KOSPI	504.62	595.13	693.70	742.72	627.55	669.93	810.71
(Won)/US$ exchange rates (1)	1,267	1,303	1,314	1,205	1,186	1,196	1,192
Corporate bond rates (2)	8.27%	7.25%	7.04%	6.59%	5.68%	5.45%	5.58%
Treasury bond rates (3)	6.70%	5.93%	5.91%	5.65%	5.11%	4.16%	4.82%

(1) Noon buying rate.
(2) Measured by the yield on three-year AA- rated corporate bonds, as rated by the Korean credit rating agencies.
(3) Measured by the yield on three-year treasury bonds.

Critical Accounting Policies

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

Allowance for Loan Losses

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

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

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

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

- We establish an allowance for loan losses related to leases based on historical loss experience.

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

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

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

Our consolidated financial statements for the year ended December 31, 2003 included a total loan loss allowance of (Won)5,829 billion as of that date (including allowances with respect to guarantees and acceptances). Our total loan charge-offs, net of recoveries, amounted to (Won)6,621 billion and our provision for losses on loans, guarantees and acceptances amounted to (Won)7,167 billion in 2003.

Valuation of Securities and Financial Instruments

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

Trading assets and liabilities: Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading assets and liabilities also include derivatives used for trading purposes as well as those used for other than trading purposes that do not qualify for hedge accounting and foreign exchange spot contracts. Trading positions are carried at fair value and recorded on a trade date basis, with changes in fair value recognized in net trading revenue as they occur.

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Debt and marketable equity securities: We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminable period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. Available-for-sale securities are reported at fair value. Unrealized gains and losses are excluded from earnings and reported in a separate component of stockholders equity. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of realized loss in earnings. We carry our investments in held-to-maturity debt securities at amortized cost if we intend and have the ability to hold them to maturity. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the securities to their fair value.

Nonmarketable or restricted equity securities: Some equity securities do not have readily determinable marketable values or have sales restrictions exceeding one year. We carry such securities at cost, with any other-than-temporary impairment recorded in earnings. The fair values of nonmarketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost or other reference events. The fair values of restricted equity securities are based on the latest market value of the related nonrestricted securities less a restriction discount. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments.

Investments in venture capital activities: Certain of our subsidiaries engage exclusively in venture capital activities. We carry venture capital investments at fair value with net changes in fair value recognized as noninterest income or expense. The fair values of publicly traded securities these subsidiaries hold are generally based on quoted market prices. Securities that these subsidiaries hold that are not publicly traded are originally recorded at cost, which is deemed to be fair value as of the acquisition date. Subsequent to that date we estimate fair value based on investee transactions with unaffiliated parties or based on our review of the investee s financial results and condition. If such information is not readily available, the fair values are based on the latest obtainable net asset value of the investees. Any changes to these assumptions could significantly affect the fair values of these investments.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities and financial instruments using quoted market prices when available, including quotes from dealers trading those securities or instruments. If quoted market prices are not available, we determine the fair value based on pricing or valuation models, quoted prices of instruments with similar characteristics or discounted cash flows. The fair values calculated based on pricing and valuation models or discounted cash flow analysis are subject to various assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions relate to discount rates, cash flows and certain modeling techniques, among other things. For certain nonmarketable or restricted securities, we may periodically utilize external valuations performed by qualified independent evaluators.

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

We believe that the accounting estimates related to the fair market value of our various securities is a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a

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material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether or not any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Intangible Assets Acquired

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

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

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Results of Operations

Results of operations for each of the three years presented below do not include results for subsidiaries that we disposed of in 2002, the results of which have been aggregated as discontinued operations in each of 2001 and 2002 and are discussed separately.

Net Interest Income

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won, except percentages)			(% change)	
Interest and dividend income					
Loans, including fees (1)	(Won) 7,023	(Won) 11,824	(Won) 12,062	68.4%	2.0%
Trading securities	172	112	105	(34.9)	(6.3)
Investment securities	1,540	1,419	1,513	(7.9)	6.6
Call loans and securities purchased under resale agreements	101	34	61	(66.3)	79.4
Deposits	59	61	14	3.4	(77.0)
Total interest and dividend income	8,895	13,450	13,755	51.2	2.3
Interest expense					
Deposits	3,537	4,543	4,137	28.4	(8.9)
Call money	39	71	65	82.1	(8.5)
Other borrowed funds	558	521	598	(6.6)	14.8
Secured borrowings	297	325	476	9.4	46.5
Long-term debt	886	1,274	1,186	43.8	(6.9)
Total interest expense	5,317	6,734	6,462	26.7	(4.0)
Net interest income	(Won) 3,578	(Won) 6,716	(Won) 7,293	87.7%	8.6%
Net interest margin (2)	3.57%	4.02%	4.00%		

(1) Fees primarily include annual fees on credit cards.
(2) The ratio of net interest income to average interest earning assets. See Item 3A. Selected Financial Data Profitability ratios and other data.

Comparison of 2003 to 2002

Interest and dividend income. Interest and dividend income increased 2.3% from (Won)13,450 billion in 2002 to (Won)13,755 billion in 2003, primarily due to a 2.0% increase in interest and fees on loans and a 6.6% increase in interest and dividends from investment securities. The average balance of our interest earning assets increased 9.1% from (Won)167,073 billion in 2002 to (Won)182,320 billion in 2003, principally as a result of increased consumer loan demand as a result of both higher levels of consumer spending and our marketing efforts, which more than offset a decline in average yields from 8.05% in 2002 to 7.54% in 2003.

The 2.0% increase in interest and fees on loans from (Won)11,824 billion in 2002 to (Won)12,062 billion in 2003 was primarily the result of:

a 13.9% increase in the average volume of consumer loans other than mortgage and home equity loans from (Won)25,519 billion in 2002 to (Won)29,077 billion in 2003, which was partially offset by a decrease of 19 basis points in average yields on such loans from 8.35% in 2002 to 8.16% in 2003;

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- a 13.9% increase in the average volume of commercial and industrial loans from (Won)38,733 billion in 2002 to (Won)44,134 billion in 2003, which was partially offset by a decrease of 61 basis points in average yields on such loans from 7.08% in 2002 to 6.47% in 2003;

- a 20.6% increase in the average volume construction loans from (Won)5,336 billion in 2002 to (Won)6,433 billion in 2003, which was enhanced by an increase of 42 basis points in average yields on such loans from 7.20% in 2002 to 7.62% in 2003; and

- a 17.2% increase in the average volume of mortgage and house equity loans from (Won)41,422 billion in 2002 to (Won)48,535 billion in 2003, which was partially offset by a decrease of 90 basis points in average yields on such loans from 7.94% in 2002 to 7.04% in 2003.

This increase was partially offset by a 16.8% decline in the average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)19,840 billion in 2002 to (Won)16,498 billion in 2003, partially offset by an increase of 129 basis points in average yields on credit card balances from 15.96% in 2002 to 17.25% in 2003.

The average volume of our loans increased principally as a result of increased demand for mortgage and home equity and other consumer loans, due to generally higher levels of consumer borrowing in Korea, as well as for small- and medium-sized enterprise loans. Our average volume growth in mortgage and home equity loans and other consumer loans also reflected the effects of our increased marketing efforts with respect to our retail loan products, which effects were offset to some extent by government efforts to control the level of outstanding consumer debt in Korea. Such volume growth was also partially offset by the substantial decrease in the average volume of our credit card balances as a result of a high level of charge-offs, as well as increased market saturation, competition and government regulation in the credit card business. Our average yield on loans decreased 65 basis points from 8.86% to 8.21% principally as a result of the decline in average yields on mortgage and home equity loans and on commercial and industrial loans, both of which were due to the general decline in market interest rates in Korea from 2002 to 2003. These decreases were partially offset by the increase in average yields on credit card balances, which resulted from industry-wide rate increases designed to enhance the profitability of credit card operations in the face of increasing delinquencies and lower volume growth, as well as the application of penalty interest on higher delinquent balances.

Our securities portfolio consists primarily of investment securities, of which 82.6% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and other Korean banks as of December 31, 2003. Interest and dividends on investment securities increased 6.6% from (Won)1,419 billion in 2002 to (Won)1,513 billion in 2003. This increase was primarily due to an increase in the proportion of debt securities invested in trust beneficiary certificates as a result of a shift to more income generating investments in 2003. The effect of this increase was partially offset by a 45 basis point decline in average yields from 5.66% in 2002 to 5.21% in 2003, as a result of the general decline in market interest rates in Korea from 2002 to 2003.

Interest Expense. Interest expense decreased 4.0% from (Won)6,734 billion in 2002 to (Won)6,462 billion in 2003, primarily due to a 8.9% decline in interest expense on deposits and a 6.9% decline in interest expense on long-term debt, which were partially offset by a 46.5% increase in interest on secured borrowings and a 14.8% increase in interest on other borrowed funds. The average balance of our interest bearing liabilities increased 7.6% from (Won)154,978 billion in 2002 to (Won)166,682 billion in 2003, principally as a result of growth in deposits and other borrowed funds, which was offset by a 47 basis point decline in average cost from 4.35% in 2002 to 3.88% in 2003.

The 8.9% decline in interest expense on deposits from (Won)4,543 billion in 2002 to (Won)4,137 billion in 2003 was primarily the result of:

- a 53 basis point decline in the average interest rate paid on other time deposits from 4.91% in 2002 to 4.38% in 2003, which was partially offset by a 1.9% increase in the average volume of such deposits from (Won)66,454 billion in 2002 to (Won)67,733 billion in 2003;

- an 87 basis point decline in the average interest rate paid on mutual installment deposits from 6.24% in 2002 to 5.37% in 2003, which was enhanced by a 2.4% decline in the average volume of such deposits from (Won)12,235 billion in 2002 to (Won)11,946 billion in 2003; and

- a 26 basis point decline in the average interest rate paid on savings deposits from 1.17% in 2002 to 0.91% in 2003, which was partially offset by a 9.0% increase in the average volume of such deposits from (Won)35,206 billion in 2002 to (Won)38,368 billion in 2003.

These declines in the average interest paid on such deposits resulted from the general decline in market interest rates in Korea from 2002 to 2003, while the overall increase in the average volume of such deposits was primarily attributable to increased demand for deposit products.

Interest expense on long-term debt declined 6.9% from (Won)1,274 billion in 2002 to (Won)1,186 billion in 2003 as a result of a decrease in both the average cost and average volume of such debt. The average interest rate paid on our long-term debt declined 26 basis points from 6.29% in 2002 to 6.03% in 2003, due to the general decline in market interest rates in Korea from 2002 to 2003 and as we replaced maturing long-term debt with lower cost long-term debt. The average volume of our long-term debt declined 2.9% from (Won)20,260 billion in 2002 to (Won)19,678 billion in 2003 as we replaced such debt with other borrowed funds due to the lower borrowing costs for such funds.

The 46.5% increase in interest expense on secured borrowings from (Won)325 billion in 2002 to (Won)476 billion in 2003 was the result of an increase in the average interest rate paid on such borrowings. The average interest rate paid on our secured borrowings increased 32 basis points from 5.52% in 2002 to 5.84% in 2003, principally as a result of our special purpose vehicles issuing asset-backed securities at higher interest rates than prevailing market rates due to the lower asset quality of the underlying securitized assets.

The 14.8% increase in interest expense on other borrowed funds, which consist primarily of short-term borrowings, borrowings from the Bank of Korea, short-term foreign currency borrowings, short-term debentures and borrowing from our trust accounts, from (Won)521 billion in 2002 to (Won)598 billion in 2003 was due to an increase in the average volume of such borrowings, which was partially offset by a decrease in the average interest rate paid with respect to such borrowings. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 46.0% from (Won)9,077 billion in 2002 to (Won)13,250 billion in 2003, while the average volume of borrowings from the Bank of Korea declined 23.7% from (Won)1,337 billion in 2002 to (Won)1,020 billion in 2003. The increase in the average volume of other borrowed funds was primarily due to the issuance of more short-term Won-denominated debentures as this funding source became more attractive as a result of its lower cost. The average interest rates paid on short-term borrowings other than borrowings from the Bank of Korea decreased 106 basis points from 5.38% in 2002 to 4.32% in 2003, and the average interest rates paid on borrowings from the Bank of Korea declined two basis points from 2.47% in 2002 to 2.45% in 2003. The decrease in the average cost of other borrowed funds was primarily due to our greater reliance on lower cost Won-denominated debentures as a funding source, as well as the general decline in market interest rates in Korea from 2002 to 2003.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest earning assets. Our overall net interest margin declined from 4.02% in 2002 to 4.00% in 2003. Net interest income increased 8.6% from (Won)6,716 billion in 2002 to (Won)7,293 billion in 2003. The average volume of our interest earning assets increased 9.1% from (Won)167,073 billion in 2002 to (Won)182,320 billion in

2003. The decline

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in net interest margin was largely due to the replacement of credit card balances with other loans that generally earn interest at lower rates, such as retail loans, as well as the declines in average yields on mortgage and home equity loans and on investment securities.

Comparison of 2002 to 2001

Interest and dividend income. Interest and dividend income increased 51.2% from (Won)8,895 billion in 2001 to (Won)13,450 billion in 2002, primarily due to a 68.4% increase in interest and fees on loans. The average balance of our interest earning assets increased 66.7% from (Won)100,220 billion in 2001 to (Won)167,073 billion in 2002, principally as a result of the full-year impact of the merger with H&CB and increased consumer loan and credit card demand as a result of both higher levels of consumer spending and our marketing efforts, which more than offset a decline in average yields from 8.88% in 2001 to 8.05% in 2002.

The 68.4% increase in interest and fees on loans from (Won)7,023 billion in 2001 to (Won)11,824 billion in 2002 was primarily the result of:

- a 219.0% increase in average volume of mortgage and home equity loans from (Won)12,988 billion in 2001 to (Won)41,422 billion in 2002, partially offset by a decline of 88 basis points in average yields on such loans from 8.82% in 2001 to 7.94% in 2002;
- a 99.6% increase in average volume of credit card balances, primarily in cash advances and credit card loans, from (Won)9,938 billion in 2001 to (Won)19,840 billion in 2002, partially offset by a decline of 29 basis points in average yields on credit card balances from 16.25% in 2001 to 15.96% in 2002;
- a 108.2% increase in average volume of consumer loans other than mortgage and home equity loans from (Won)12,258 billion in 2001 to (Won)25,519 billion in 2002, partially offset by a decline of 139 basis points in average yields on such loans from 9.74% in 2001 to 8.35% in 2002;
- a 113.2% increase in average volume of construction loans from (Won)2,503 billion in 2001 to (Won)5,336 billion in 2002, partially offset by a decline of 175 basis points in average yields on such loans from 8.95% in 2001 to 7.20% in 2002; and
- a 19.6% increase in average volume of commercial and industrial loans from (Won)32,390 billion in 2001 to (Won)38,733 billion in 2002, partially offset by a decline of 114 basis points in average yields on such loans from 8.22% in 2001 to 7.08% in 2002.

The average volume of our loans increased principally as a result of the full-year impact of the merger with H&CB, principally for mortgage and home equity and other consumer loans and credit card balances, and increased demand for these retail loan products due to generally higher levels of consumer borrowing in Korea. As a result of the merger, we acquired loans of H&CB (prior to deducting allowance for loan losses) in the aggregate amount of (Won)50,723 billion, including (Won)4,222 billion of credit card balances, (Won)6,179 billion of commercial and industrial loans, (Won)21,768 billion of mortgage loans and (Won)15,100 billion of installment loans to individuals and other consumer loans as of November 1, 2001. These assets were included in the calculation of our average balances and interest rates for all of 2002 but only two months of 2001, and, accordingly, the impact of these loans has been significantly greater on our results for 2002 than on our results for 2001. Our average volume growth in credit card balances, mortgage and home equity loans and other consumer loans also reflected the effects of our increased effort to market these consumer loan products, which effects were offset to some extent by government efforts to control the level of outstanding consumer debt in Korea. Our average yield on loans decreased 82 basis points from 9.68% to 8.86% principally as a result of the decline in the general levels of interest rates in Korea from 2001 to 2002.

Our securities portfolio consists primarily of investment securities, of which 55.8% represented debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Korea Electric Power Corporation, the Korea Deposit Insurance Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) and debt securities issued by financial institutions and

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other Korean banks as of December 31, 2002. Interest and dividends on investment securities decreased 7.9% from (Won)1,540 billion in 2001 to (Won)1,419 billion in 2002. This decrease was primarily due to a 162 basis point decline in average yields on investment securities from 7.28% in 2001 to 5.66% in 2002 reflecting increased average balances of non-interest bearing trust beneficiary certificates included in our securities portfolio as a result of the full-year impact of our merger with H&CB, the lower interest rate environment and our increased investments in equity securities, which was partially offset by a 18.6% increase in the average volume of investment securities from (Won)21,152 billion in 2001 to (Won)25,090 billion in 2002 primarily as a result of the full-year impact of the merger with H&CB.

Our securities portfolio also includes trading securities, of which 28.6% represented debt securities issued by government-owned or -controlled enterprises or financial institutions and debt securities issued by financial institutions and other Korean banks as of December 31, 2002. Interest and dividends on trading securities decreased 34.9% from (Won)172 billion in 2001 to (Won)112 billion in 2002. This decrease was primarily due to a 305 basis point decline in average yields on trading securities from 4.93% in 2001 to 1.88% in 2002 reflecting increased average balances of non-interest bearing trust beneficiary certificates included in our securities portfolio as a result of the full-year impact of our merger with H&CB, the lower interest rate environment and increased amortization of premium paid in connection with acquiring debt securities which had the effect of decreasing the effective yield on those securities, which was partially offset by a 70.6% increase in the average volume of trading securities from (Won)3,490 billion in 2001 to (Won)5,953 billion in 2002 primarily as a result of the full-year impact of the merger with H&CB.

Interest income from call loans and securities purchased under resale agreements decreased 66.3% from (Won)101 billion in 2001 to (Won)34 billion in 2002. This decrease resulted from a 61.3% decline in the average volume of such loans from (Won)2,093 billion in 2001 to (Won)811 billion in 2002 and a 64 basis point decrease in average yields on such loans and securities from 4.83% in 2001 to 4.19% in 2002. The decline in average volume of such loans and securities resulted primarily from our redeployment of these assets to provide loans to retail customers in response to higher consumer credit demand, and the decline in average yield on such loans and securities resulted from the decline in the general levels of interest rates in Korea from 2001 to 2002.

Interest Expense. Interest expense increased 26.7% from (Won)5,317 billion in 2001 to (Won)6,734 billion in 2002, primarily due to a 28.4% increase in interest expense on deposits and a 43.8% increase in interest expense on long-term debt. The average balance of our interest bearing liabilities increased 66.4% from (Won)93,120 billion in 2001 to (Won)154,978 billion in 2002, principally as a result of the full-year impact of the merger with H&CB and increased deposits and long-term debt, which more than offset a 136 basis point decline in average cost from 5.71% in 2001 to 4.35% in 2002.

The 28.4% increase in interest expense on deposits from (Won)3,537 billion in 2001 to (Won)4,543 billion in 2002 was primarily the result of a 75.0% increase in the average volume of interest bearing deposits from (Won)66,656 billion in 2001 to (Won)116,613 billion in 2002. This increase consisted mostly of:

- a 100.0% increase in average volume of time deposits (other than certificates of deposit) from (Won)33,231 billion in 2001 to (Won)66,454 billion in 2002; and

- a 48.8% increase in average volume of savings deposits from (Won)23,665 billion in 2000 to (Won)35,206 billion in 2001.

These average volume increases were primarily attributable to the full-year impact of the merger with H&CB, increased demand for deposit products and the tendency of retail customers in Korea to deposit their money in banks perceived as stronger, like us. As a result of the merger, we acquired deposits of H&CB in the aggregate amount of (Won)51,861 billion, including time deposits (other than certificates of deposit) of (Won)32,382 billion, savings deposits of (Won)1,593 billion and mutual installment deposits of (Won)5,753 billion as of November 1, 2001. These deposits were included in the calculation of our average balances and interest rates for all of 2002 but only two months of 2001, and, accordingly, the impact of these liabilities has been significantly greater on

our results for 2002 than on our results for 2001. The increase in interest expense as a result of increased average deposits was partially offset by a decrease in the average cost of interest bearing deposits due to the general decline in market interest rates in Korea from 2001 to 2002. The average interest rate paid on our time deposits (other than certificates of deposit), which accounted for 43.0% of our average interest bearing liabilities in 2002, decreased from 7.21% in 2001 to 4.91% in 2002. The average interest rate paid on our savings deposits, which accounted for 22.7% of our average interest bearing liabilities in 2002, decreased from 1.88% in 2001 to 1.17% in 2002. The average interest rate on our mutual installment deposits, which accounted for 7.9% of our average interest bearing liabilities in 2002, decreased from 7.78% in 2001 to 6.24% in 2002.

Interest expense on long-term debt increased 43.8% from (Won)886 billion in 2001 to (Won)1,274 billion in 2002 as a result of an increase in the average volume of such borrowings. The average volume of our long-term debt increased 56.6% from (Won)12,934 billion in 2001 to (Won)20,260 billion in 2002 primarily as a result of the full-year impact of the merger with H&CB and our increased use of long-term debt in order to diversify our borrowings and to obtain larger blocks of funding having fixed costs and maturities, despite the higher cost compared to other funding sources. This increase was partially offset by a decrease in the average cost of long-term debt due to the general decline in market interest rates in Korea from 2001 to 2002 and as we replaced maturing long-term debt with lower cost long-term debt. The average interest rate paid on our long-term debt decreased 56 basis points from 6.85% in 2001 to 6.29% in 2002.

The 9.4% increase in interest expense on secured borrowings from (Won)297 billion in 2001 to (Won)325 billion in 2002 was the result of an increase in the average volume of such borrowings. The average volume of secured borrowings increased 59.1% from (Won)3,701 billion in 2001 to (Won)5,888 billion in 2002, principally as a result of the full-year impact of the merger with H&CB, as well as new asset securitization transactions that our subsidiary Kookmin Credit Card entered into in 2002. Under U.S. GAAP, transfers of assets through securitizations where control of the assets has not been surrendered are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings. This increase was partially offset by a decrease in the average cost of secured borrowings due to the general decline in market interest rates in Korea from 2001 to 2002 and our replacement of maturing secured borrowings with lower-cost secured borrowings in securitization transactions. The average interest rate paid on our secured borrowings decreased 250 basis points from 8.02% in 2001 to 5.52% in 2002.

The 6.6% decrease in interest expense on other borrowed funds from (Won)558 billion in 2001 to (Won)521 billion in 2002 was due to a decrease in the average interest rate paid with respect to such borrowings, partially offset by an increase in the average volume of such borrowings. The average interest rates paid on short-term borrowings other than borrowings from the Bank of Korea decreased 136 basis points from 6.74% in 2001 to 5.38% in 2002 and the average interest rates paid on borrowings from the Bank of Korea decreased 83 basis points from 3.30% in 2001 to 2.47% in 2002. The decrease in the average cost of other borrowed funds was primarily due to the general decline in market interest rates in Korea from 2001 to 2002. The average volume of short-term borrowings other than borrowings from the Bank of Korea increased 17.6% from (Won)7,717 billion in 2001 to (Won)9,077 billion in 2002 and the volume of borrowings from the Bank of Korea increased 16.1% from (Won)1,152 billion in 2001 to (Won)1,337 billion in 2002. The increase in the average volume of other borrowed funds was primarily due to the full-year impact of the merger with H&CB, the issuance of more short-term Won-denominated debentures as this funding source became more attractive as a result of its lower volatility with respect to duration and cost, coupled with the general decrease in the cost of such borrowings and, with regard to borrowings from the Bank of Korea, increased utilization of this funding source as a result of a decision by the Bank of Korea to allocate more funding to us.

Net interest margin. Our overall net interest margin increased from 3.57% in 2001 to 4.02% in 2002. Net interest income increased 87.7% from (Won)3,578 billion in 2001 to (Won)6,716 billion in 2002. The average volume of our interest earning assets increased 66.7% from (Won)100,220 billion in 2001 to (Won)167,073 billion in 2002. The increase in net interest margin was largely due to the more significant decline in the interest rates we paid on our deposits when compared to the decline in the interest rates we charged on our loans in 2002, in part as a result of our effort to lower deposit rates more quickly than interest rates charged on loans were declining. In addition, compared to 2001, in 2002 we received more payments of interest on credit card loans and fees on cash advances, which were generally at higher rates of interest than many of our other loans.

Provision for Loan Losses

For a discussion of our loan loss provisioning policy, see Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy.

Comparison of 2003 to 2002

Our provision for loan losses increased substantially from (Won)3,909 billion in 2002 to (Won)7,192 billion in 2003, as a result of higher provisions in respect of our credit card, retail and corporate loan portfolios due to:

- significant deterioration in the asset quality of our credit card and retail loan portfolios, demonstrated by continuing increases in delinquencies and non-performing loans;
- continued re-aging of outstanding delinquent credit card balances into restructured loans and substituted cash advances, which may have a higher delinquency rate and a higher degree of risk and are considered separately for purposes of determining loan loss allowances;
- continued growth in our retail loan portfolio; and
- growth in, and deterioration of the asset quality of, our loans to small- and medium-sized enterprise borrowers.

Our loan charge-offs, net of recoveries, increased 220.8% from (Won)2,064 billion in 2002 to (Won)6,621 billion in 2003. Of the (Won)4,557 billion increase, (Won)3,466 billion, (Won)539 billion and (Won)552 billion represented increases in net charge-offs of outstanding credit card balances, retail loans and corporate loans, respectively.

As a result of such charge-offs, overdue balances in our credit card portfolio decreased 28.8% from (Won)4,657 billion as of December 31, 2002 to (Won)3,317 billion as of December 31, 2003. However, our provisions for credit card balances increased due to continuing increases in delinquency rates and weakness in the Korean economy.

After net charge-offs, overdue balances in our retail loan portfolio decreased 17.0% from (Won)7,495 billion as of December 31, 2002 to (Won)6,221 billion as of December 31, 2003. Overdue balances in our corporate loan portfolio also decreased 15.2% from (Won)2,824 billion as of December 31, 2002 to (Won)2,396 billion as of December 31, 2003. However, significant increases in retail and small- and medium-sized enterprise loans and increases in delinquency rates, as well as continued weakness in the Korean economy, result in higher provisioning for these assets.

Comparison of 2002 to 2001

Our provision for loan losses increased from (Won)1,270 billion in 2001 to (Won)3,909 billion in 2002 as a result of higher provisions in respect of our credit card and retail loan portfolios due to:

- the full-year effect of the merger with H&CB, resulting in a larger average balance of such loans during 2002;
- continuing increases in delinquencies and non-performing loans in our credit card and consumer loan portfolios; and
- the re-aging of outstanding delinquent credit card balances into restructured loans and substituted cash advances, which may have a higher delinquency rate and a higher degree of risk and are considered separately for purposes of determining loan loss allowances.

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This increase was partially offset by the decrease in our provision for loan losses in respect of our corporate loan portfolio due to the improvement in the financial condition of certain corporate borrowers and a decline in the number of new delinquencies in respect of such loans in 2002 compared to 2001.

Our loan charge-offs, net of recoveries, increased 43.6% from (Won)1,437 billion in 2001 to (Won)2,064 billion in 2002. Of the (Won)627 billion increase, (Won)1,059 billion and (Won)32 billion represented increases in net charge-offs of outstanding credit card balances and retail loans, respectively, which were partially offset by decreases of (Won)464 billion in net charge-offs of outstanding corporate loans.

Even after net charge-offs, significant increases in credit card balances, particularly cash advances and credit card loans, increased overdue balances in our credit card portfolio, which increased 259% from (Won)1,298 billion as of December 31, 2001 to (Won)4,657 billion as of December 31, 2002, a slowdown in the Korean economy and rising delinquency rates resulted in higher provisioning for these assets.

Similarly, even after net charge-offs, significant increases in retail loans other than mortgage loans and home equity loans and increased overdue balances in our retail loan portfolio, which increased 36% from (Won)5,502 billion as of December 31, 2001 to (Won)7,495 billion as of December 31, 2002, resulted in higher provisioning for these assets.

Allowance for Loan Losses

For information on allowance for loan losses, see Critical Accounting Policies Allowance for Loan Losses and Item 4B. Business Overview Assets and Liabilities Loan Portfolio Allocation of Allowance for Loan Losses.

Corporate Loans. We establish specific loan loss allowances for corporate loans based on whether a particular loan is impaired or not. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy. We also establish an allowance for loan losses for corporate loans that we do not believe are impaired based on our historical loss experience for those types of loans. Smaller balance commercial loans (which are commercial loans of (Won)1 billion or less) are managed on a portfolio basis and evaluated collectively for impairment. The following table shows, for the periods indicated, certain information regarding our impaired corporate loans.

	As of December 31,		
	2001	**2002**	**2003**
Impaired loans as a percentage of total corporate loans	12.8%	9.3%	9.8%
Allowance for loan losses as a percentage of total corporate loans	5.9	4.2	4.2
Allowance for loan losses as a percentage of impaired loans	38.5	34.3	28.4

During 2003, impaired loans as a percentage of total corporate loans increased, the level of allowance for loan losses as a percentage of impaired loans decreased and the level of allowance for loan losses as a percentage of total corporate loans remained stable, as the decrease in outstanding balances resulting from charge-offs was more than offset by new loans to small- and medium-sized enterprises and as non-performing loans charged off were replaced by new delinquencies in the small- and medium-sized enterprise loan portfolio, leading to an improved overall mix of impaired loans.

During 2002, impaired loans as a percentage of total corporate loans, allowance for loan losses as a percentage of total corporate loans and allowance for loan losses as a percentage of impaired loans all decreased due to decreased levels of impaired and non-performing loans primarily as a result of charge-offs in 2002 and the application of stricter credit standards with respect to new corporate loans which improved the quality of our loan portfolio.

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

	As of December 31,		
	2001	2002	2003
Non-performing loans as a percentage of total consumer loans	1.6%	2.3%	2.4%
Allowance for loan losses as a percentage of total consumer loans	1.2	3.2	3.8
Allowance for loan losses as a percentage of non-performing consumer loans	23.9	32.5	30.0

During 2003, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios. The level of allowance for loan losses as a percentage of total consumer loans increased as we increased our allowance for existing and new consumer loans as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios. The level of allowance for loan losses as a percentage of non-performing consumer loans, however, decreased as non-performing loans that were secured with collateral, which require a lower allowance level, were not charged off as quickly as those that were unsecured due to the possibility of recovery as a result of the underlying collateral.

During 2002, non-performing consumer loans as a percentage of total consumer loans increased despite higher charge-offs as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios and the re-aging of outstanding credit card balances, following which these balances were no longer deemed non-performing until additional time had passed. The level of allowance for loan losses as a percentage of total consumer loans and the level of allowance for loan losses as a percentage of non-performing consumer loans both increased as we increased our allowance for existing and new consumer loans as a result of continuing increases in delinquencies and non-performing loans in our credit card and retail loan portfolios.

Non-Interest Income

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
		(in billions of Won)		(% change)	
Credit card merchant fees	(Won) 880	(Won) 1,092	(Won) 1,049	24.1%	(3.9)%
Other fees and commission income (excluding credit card merchant fees)	325	867	853	166.8	(1.6)
Net trading revenue	120	458	163	281.7	(64.4)
Trust fees, net	211	376	289	78.2	(23.1)
Net gain on investments	43	130	387	202.3	197.7

Other non-interest income	186	175	173	(5.9)	(1.1)
Total non-interest income	(Won) 1,765	(Won) 3,098	(Won) 2,914	75.5%	(5.9)%

Comparison of 2003 to 2002

Non-interest income decreased 5.9% from (Won)3,098 billion in 2002 to (Won)2,914 billion in 2003. This decrease was attributable primarily to a (Won)295 billion decrease in net trading revenue from (Won)458 billion in 2002 to (Won)163 billion in 2003. This decrease was partially offset by a (Won)257 billion increase in net gain on investments from (Won)130 billion in 2002 to (Won)387 billion in 2003.

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Net trading revenue represents net realized and unrealized gains on securities and derivatives in our trading portfolio. The 64.4% decline in net trading revenue resulted from a (Won)119 billion decline in net gain on trading-related revenue from disposals and revaluations of equity securities from (Won)166 billion in 2002 to (Won)47 billion in 2003 and an (Won)87 billion decline in net gain on trading-related revenue from disposals and revaluations of debt securities from (Won)103 billion in 2002 to (Won)16 billion in 2003. These declines resulted from a decrease in the trading volume of equity and debt securities due to reallocation of our resources to investment securities.

Net gain on investments consists of gains on equity securities, debt securities and gains on other investments, net of corresponding losses. The 197.7% increase in net gain on investments was attributable principally to gains on equity securities, as a result of a decrease in impairment loss on such securities due to the general improvement of conditions in the Korean equity market in 2003.

Comparison of 2002 to 2001

Non-interest income increased 75.5% from (Won)1,765 billion in 2001 to (Won)3,098 billion in 2002. This increase was attributable primarily to:

- a (Won)542 billion increase in other fees and commission income (excluding credit card merchant fees) from (Won)325 billion in 2001 to (Won)867 billion in 2002;
- a (Won)338 billion increase in net trading revenue from (Won)120 billion in 2001 to (Won)458 billion in 2002;
- a (Won)212 billion increase in credit card merchant fees from (Won)880 billion in 2001 to (Won)1,092 billion in 2002; and
- a (Won)165 billion increase in net trust fees from (Won)211 billion in 2001 to (Won)376 billion in 2002.

Other fees and commission income (excluding credit card merchant fees) consists of commissions received on remittances, fund management and letters of credit and other fees and commissions. The 166.8% increase in such income was attributable principally to the full-year impact of the merger with H&CB, which led to an increase in commissions received from our management of the National Housing Fund and an increase in various types of commission fees relating to our banking operations. Fee and commission income also increased as a result of higher volumes of fees being paid in connection with loan repayments, as more customers made early repayments, and increasing use of our retail services, including our ATMs and our electronic banking, securities and beneficiary certificate businesses.

The 281.7% increase in net trading revenue resulted from a (Won)164 billion increase in net gain on trading-related revenue from disposals and revaluations of equity securities from (Won)2 billion in 2001 to (Won)166 billion in 2002, a (Won)101 billion increase in net gain on trading-related revenue from disposals and revaluations of foreign exchange spot contracts and derivative instruments from (Won)88 billion in 2001 to (Won)189 billion in 2002 and a (Won)73 billion increase in net gain on trading-related revenue from disposals and revaluations of debt securities from (Won)30 billion in 2001 to (Won)103 billion in 2002. These increases resulted from the full-year effect of the merger with H&CB, the decrease in market interest rates which increased the value of our debt securities and the depreciation of the U.S. dollar against the Korean won which caused us to record gains on foreign exchange transactions based on the terms of the derivatives and currency swaps we held.

Credit card merchant fees include primarily fees received from member merchants on credit card transactions. The 24.1% increase in credit card merchant fees was attributable principally to the full-year impact of the merger with H&CB, following which we received credit card merchant fees from the BC Card operations and the number and charge volume of our credit cards increased accordingly, and also to increased use of credit cards generally by our customers.

Trust fees consist of fees we receive for managing trust account assets, based on assets under management and the performance of the trusts, and penalty payments we receive when customers terminate their trust accounts prior to the end of the fixed term, net of subsidy payments for trust performance guarantees from our banking accounts to our trust accounts, which are payments from our banking accounts to make up for shortfalls in the guaranteed money trust accounts. The 78.2% increase in net trust fees resulted primarily from an increase in the average volume of our trust account assets due to the full-year effect of the merger with H&CB and the payment from our trust accounts to us of funds previously set aside in those accounts as a reserve against payments required to be made on guarantees due to our reassessment of the performance of our trust account assets. For further information on trust accounts, see Item 4B. Business Overview Other Businesses Trust Account Management Services.

Non-Interest Expense

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
		(in billions of Won)		(% change)	
Salaries and employee benefits	(Won) 1,051	(Won) 1,586	(Won) 1,657	50.9%	4.5%
Other administrative expenses	409	834	713	103.9	(14.5)
Other fees and commissions	323	701	523	117.0	(25.4)
Depreciation and amortization	165	443	526	168.5	18.7
Credit card fees	240	390	521	62.5	33.6
Other non-interest expenses	166	433	466	160.8	7.6
Total non-interest expense	(Won) 2,354	(Won) 4,387	(Won) 4,406	86.4%	0.4%

Comparison of 2003 to 2002

Non-interest expense remained relatively stable at (Won)4,406 billion in 2003 compared to (Won)4,387 billion in 2002 due to:

a (Won)131 billion increase in credit card fees from (Won)390 billion in 2002 to (Won)521 billion in 2003;

an (Won)83 billion increase in depreciation and amortization from (Won)443 billion in 2002 to (Won)526 billion in 2003;

a (Won)178 billion decrease in other fees and commissions from (Won)701 billion in 2002 to (Won)523 billion in 2003; and

a (Won)121 billion decrease in other administrative expenses from (Won)834 billion in 2002 to (Won)713 billion in 2003.

Credit card fees include fees and commissions paid to our sales agents, expenses related to awarding mileage and bonus points to our credit card customers and fees and commissions paid to our member merchants. The 33.6% increase in credit card fees from 2002 to 2003 resulted mainly from increased fees paid in connection with collection activities in respect of overdue credit card receivables.

The 18.7% increase in depreciation and amortization from 2002 to 2003 resulted mainly from an increase in depreciation of purchased office equipment.

Other fees and commission expenses consist primarily of contributions to the Korea Credit Guarantee Fund and the Housing Credit Guarantee Fund for loan guarantees, premiums paid to the Korea Deposit Insurance Corporation for deposit insurance, commissions paid to loan collection agents on overdue loans (other than credit card receivables) and related fees. The 25.4% decline in other fees and commission expenses from 2002 to 2003 was principally due to a decrease in fees paid in respect of mortgage loans.

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The 14.5% decline in other administrative expenses (which include other employee benefits, advertising, public relations, sales promotion and data processing expenses) from 2002 to 2003 was primarily attributable to a decrease in advertising and sales promotion expenses.

Comparison of 2002 to 2001

Non-interest expense increased 86.4% from (Won)2,354 billion in 2001 in (Won)4,387 billion in 2002. This increase was primarily due to:

- a (Won)535 billion increase in salaries and employee benefits from (Won)1,051 billion in 2001 in (Won)1,586 billion in 2002;
- a (Won)425 billion increase in other administrative expenses from (Won)409 billion in 2001 to (Won)834 billion in 2002;
- a (Won)378 billion increase in other fees and commission expenses from (Won)323 billion in 2001 to (Won)701 billion in 2002;
- a (Won)278 billion increase in depreciation and amortization expense from (Won)165 billion in 2001 to (Won)443 billion in 2002;
- a (Won)267 billion increase in other non-interest expense from (Won)166 billion in 2001 to (Won)433 billion in 2002; and
- a (Won)150 billion increase in credit card fees from (Won)240 billion in 2001 to (Won)390 billion in 2002.

Salaries and employee benefits increased 50.9% from 2001 to 2002 principally as a result of the full-year impact of the merger with H&CB resulting in an increase in the aggregate amount we paid for wages (including annual bonuses) as a result of having more employees, and a periodic increase in wage rates for 2002 which was agreed with our employees in October 2002 that increased wages retroactively to the beginning of 2002.

The 103.9% increase in other administrative expenses from 2001 to 2002 was primarily attributable to the full-year impact of the merger with H&CB as well as merger-related expenses such as costs relating to the integration of our IT infrastructure and the rebranding of our operations.

The 117.0% increase in other fees and commission expenses from 2001 to 2002 was principally due to increases in these payments as a result of the full-year impact of the merger with H&CB, the growth in the volume of customer deposits and an increase in the fees associated with registering collateral in connection with certain mortgages offered to our customers.

The 168.5% increase in depreciation and amortization from 2001 to 2002 resulted mainly from an increase in depreciation as a result of our acquisition of assets in connection with the merger with H&CB and the amortization of the credit card relationship and core deposit intangible assets we acquired in that merger.

The 160.8% increase in other non-interest expenses from 2001 to 2002 resulted mainly from a (Won)146 billion increase in losses on sales of mostly corporate loans that had been previously transferred to special purpose entity subsidiaries in connection with securitization transactions that have been accounted for as secured borrowings and a (Won)38 billion increase in tax expenses other than income tax relating to education-related taxes.

The 62.5% increase in credit card fees from 2001 to 2002 resulted mainly from an increase in the number and charge volume of our credit cards, which primarily resulted from the full-year impact of the merger with H&CB, and the incurrence of additional expenses in connection with our BC Card operations.

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Income Tax Expense (Benefit)

Comparison of 2003 to 2002

Income tax expense of (Won)597 billion in 2002 changed to an income tax benefit of (Won)367 billion in 2003 as a result of the net loss incurred in 2003 and an increase in our deferred income tax assets from 2002 to 2003. The effect of this increase was partially offset by (Won)123 billion of income tax accrued in 2003 in respect of prior periods. The statutory tax rate applicable to us was approximately 29.7% in 2002 and 2003. From 2005, the statutory rates will be lowered two percentage points to 27.5% applicable to taxable income in excess of (Won)100 million and 14.3% applicable to taxable income of (Won)100 million or below. Our effective tax rate was 38.8% in 2002.

Comparison of 2002 to 2001

Income tax expense decreased 7.7% from (Won)647 billion in 2001 to (Won)597 billion in 2002 as a result of an increase in our deferred income tax assets from 2001 to 2002. The statutory tax rate applicable to us was approximately 30.8% in 2001 and 29.7% in 2002. Our effective tax rates were 37.4% in 2001 and 38.8% in 2002, which were higher than the statutory tax rates as a result of our inability to deduct certain expenses, such as certain types of goodwill, from our taxable income.

Minority Interest

Comparison of 2003 to 2002

Minority interest represents the allocation to minority shareholders of their interests in the gain or loss of our non-wholly owned consolidated subsidiaries. Income attributable to minority interests declined 75.4% from (Won)211 billion in 2002 to (Won)52 billion in 2003. The income in 2002 was due primarily to the deduction of the portion of the loss suffered by our Kookmin Credit Card operations in 2002 that was attributable to the interests of minority shareholders, which was eliminated in 2003 due to the merger of Kookmin Credit Card with us.

Comparison of 2002 to 2001

Expense attributable to minority interests was (Won)84 billion in 2001 compared to income of (Won)211 billion in 2002. The income in 2002 was due primarily to the deduction of the portion of the loss suffered by our Kookmin Card operations in 2002 that was attributable to the interests of minority shareholders.

Net Income from Discontinued Operations After Tax

Comparison of 2003 to 2002

Net income from discontinued operations after tax represents that portion of our net income derived from the operations of subsidiaries that we have disposed of during the year. We had no such income in 2003.

Comparison of 2002 to 2001

Net income from discontinued operations after tax in 2002 represents that portion of our net income derived from the operations of Kookmin Leasing, KB Asset Management and Alpha Capital Corporation (formerly Jooeun Leasing), which are subsidiaries that we disposed of during 2002. Net income from discontinued operations after tax increased over ten-fold from (Won)8 billion in 2001 to (Won)97 billion in 2002. This increase was primarily attributable to the elimination of debt of Kookmin Leasing through early redemption, forgiveness of loans and swaps of debt for equity or lower interest rate convertible bonds.

Net Income

As a result of the above, our net loss was (Won)947 billion in 2003, as compared to net income of (Won)1,252 billion in 2002 and (Won)992 billion in 2001.

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Results under Korean GAAP by Principal Business Segment

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

	Net Income (1)			Total Revenue		
	Year ended December 31,			Year ended December 31,		
	2001	2002	2003	2001	2002	2003
	(in billions of Won)					
Retail banking	(Won) 585	(Won) 878	(Won) 863	(Won) 5,889	(Won) 12,595	(Won) 12,540
Credit card operations	533	(326)	(1,638)	2,676	4,525	3,682
Corporate banking	(171)	166	(133)	3,225	3,430	3,687
International banking and capital markets	106	282	478	4,815	6,600	6,103
Other	286	63	(4)	1,530	1,416	1,197
Total	(Won) 1,339	(Won) 1,063	(Won) (434)	(Won) 18,135	(Won) 28,566	(Won) 27,209

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

Retail Banking

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 5,723	(Won) 12,387	(Won) 12,094	116.4%	(2.4)%
Interest expense	3,783	8,375	8,024	121.4	(4.2)
Provision for loan losses	133	654	1,000	391.7	52.9
Non-interest income	166	208	446	25.3	114.4
Non-interest expense including depreciation and amortization	1,111	2,296	1,999	106.7	(12.9)
Net income before tax	862	1,270	1,517	47.3	19.4
Income tax (1)	277	392	654	41.5	66.8

Net income	(Won) 585	(Won) 878	(Won) 863	50.1%	(1.7)%

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

Comparison of 2003 to 2002

Our net income before tax for this segment increased 19.4% from (Won)1,270 billion in 2002 to (Won)1,517 billion in 2003.

Interest income from our retail banking activities decreased 2.4% from (Won)12,387 billion in 2002 to (Won)12,094 billion in 2003, primarily due to a decline in average interest rates on inter-segment lending from retail banking to other segments as a result of declines in market interest rates in Korea, which caused interest income from these loans to decrease 6.1% from (Won)6,904 billion in 2002 to (Won)6,483 billion in 2003. This decrease was partially offset by an increase in average retail lending volumes, both for consumer loans and mortgage and home equity loans, principally as a result of greater demand for retail loans. The average volume of retail loans increased

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16.3% from (Won)66,660 billion in 2002 to (Won)77,525 billion in 2003, the effect of which was partially offset by a decline in average interest rates in respect of such loans as a result of the general decline in market interest rates in Korea. As a result of these effects, interest income relating to retail loans increased 5.0% from (Won)5,493 billion in 2002 to (Won)5,769 billion in 2003.

Our largest and most important funding source is deposits from retail customers, which represent approximately three-quarters of our total deposits. Interest expense in the retail banking segment decreased 4.2% from (Won)8,375 billion in 2002 to (Won)8,024 billion in 2003, primarily due to a decline in average interest rates on deposit and savings products from 3.90% in 2002 to 3.40% in 2003, which was partially offset by a 5.4% increase in the average volume of those products from (Won)118,645 billion in 2002 to (Won)125,049 billion in 2003. As a result, interest expense relating to deposit and savings products declined 10.3% from (Won)4,757 billion in 2002 to (Won)4,270 billion in 2003. The decrease was partially offset by a 67.3% increase in interest expense relating to bonds sold under repurchase agreements from (Won)107 billion in 2002 to (Won)179 billion in 2003, which resulted from the higher volume of such bonds sold.

Provision for loan losses on retail loans increased 52.9% from (Won)654 billion in 2002 to (Won)1,000 billion in 2003 primarily due to a deterioration in the asset quality of our retail loan portfolio; including increasing delinquencies and non-performing loans, as well as an increase in retail loan volume.

Non-interest income increased 114.4% from (Won)208 billion in 2002 to (Won)446 billion in 2003 primarily due to new fees derived from sales of third-party insurance products commencing in August 2003, as well as an increase of other income fees and commissions, particularly gain on dormant deposits and early repayment commissions, resulting in part from the increased average volume of assets and liabilities of our retail segment. Also, in 2003, fee and commission income derived from sales of beneficiary certificates was included in this segment, which had previously been included in the other segment.

Non-interest expense, which includes depreciation and amortization, decreased 12.9% from (Won)2,296 billion in 2002 to (Won)1,999 billion in 2003 primarily due to a 14.6% decrease in expenses allocated to this segment with respect to services shared with other segments from (Won)1,496 billion in 2002 to (Won)1,278 billion in 2003, as a result of the allocation of a higher portion of our aggregate salaries and wages to the credit card segment in connection with our merger with Kookmin Credit Card. In addition, costs associated with registering collateral in connection with certain loans decreased 88.2% from (Won)161 billion in 2002 to (Won)19 billion in 2003 due to a decrease in the volume of new secured loans provided and as we started to defer and amortize a certain portion of those costs as loan origination costs in 2003 due to the adoption of a new accounting principle under Korean GAAP, which we had not done in 2002. These decreases were partially offset by an increase in insurance fee expense on deposits resulting from an increased premium rate charged by the KDIC.

Comparison of 2002 to 2001

Our net income before tax for this segment increased 47.3% from (Won)862 billion in 2001 to (Won)1,270 billion in 2002.

Interest income from our retail banking activities increased 116.4% from (Won)5,723 billion in 2001 to (Won)12,387 billion in 2002, primarily due to the full-year impact of the merger with H&CB which caused an increase in average lending volumes, particularly to individuals and households, as well as greater demand for retail loans. Due to these reasons, the average volume of retail loans increased 174.2% from (Won)24,313 billion in 2001 to (Won)66,660 billion in 2002, with more than half of this increase resulting from an increase in the average volume of mortgage and home equity loans. This increase was partially offset by a decline in average interest rates in respect of such loans. In addition, interest income from inter-segment lending from retail banking to other segments more than doubled in 2002 as a result of an increase in the volume of such lending.

Interest expense increased 121.4% from (Won)3,783 billion in 2001 to (Won)8,375 billion in 2002. The average volume of deposit and savings products increased 75.1% from (Won)67,750 billion in 2001 to (Won)118,645 billion in

2002 due to the full-year impact of the merger with H&CB and our efforts to develop and market various new products, including in particular the Super Kookmin time deposit (launched in September 2001) and our Kangaroo deposits. This increase was partially offset by a decline in average interest rates from 5.31% in 2001 to 3.90% in 2002.

Provision for loan losses on retail loans increased 391.7% from (Won)133 billion in 2001 to (Won)654 billion in 2002 primarily due to increased minimum provisioning ratios required by government regulations promulgated by the Financial Supervisory Service in 2002 (as a result of which our provision for loan losses for both existing loans and new loans increased (Won)275 billion), deterioration in the asset quality of our retail loan portfolio, including increasing delinquencies and non-performing loans, and an increase in retail loan volumes.

Non-interest income increased 25.3% from (Won)166 billion in 2001 to (Won)208 billion in 2002 primarily due to an increase in other income fees and commissions, including wire transfer fees and early repayment commissions, resulting in part from the increased average volume of assets and liabilities of our retail segment. This increase was partially offset by the reclassification of certain fee and commission income relating to ATMs (including cash dispensers) from the retail segment in 2001 to the other segment in 2002.

Non-interest expense, which includes depreciation and amortization, increased 106.7% from (Won)1,111 billion in 2001 to (Won)2,296 billion in 2002 primarily due to an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, an increase in depreciation as a result of the acquisition of additional assets in the merger with H&CB and an increase in payments of fees and commissions, including an increase in the fees associated with registering collateral in connection with certain mortgages offered to our customers. Salaries and wages are charged proportionally to each segment.

Credit Card Operations

Our credit card segment handles credit card activities managed by Kookmin Credit Card, our consolidated subsidiary that was merged into us in September 2003, and the credit card activities relating to our interest in BC Card. Prior to its merger into us, Kookmin Credit Card managed its investing and borrowing activities internally. Subsequent to the merger, these activities and the related assets and liabilities have been combined with us and are being managed by the respective units at our bank.

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 1,483	(Won) 2,748	(Won) 2,084	85.3%	(24.2)%
Interest expense	629	1,015	758	61.4	(25.3)
Provision for loan losses	479	2,434	2,654	408.1	9.0
Non-interest income	1,193	1,778	1,598	49.0	(10.1)
Non-interest expense including depreciation and amortization	799	1,432	3,190	79.2	122.8
Net income (loss) before tax (1)	769	(355)	(2,920)	N/M	722.5
Income tax (1)(2)	235	(29)	(1,282)	N/M	4,320.7

Net income (loss) (1)	(Won) 534	(Won) (326)	(Won) (1,638)	N/M	402.5

(1) N/M = not meaningful.
(2) Portion of income tax allocated to this segment.

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Comparison of 2003 to 2002

Our net loss before tax for this segment increased more than eight-fold from (Won)355 billion in 2002 to (Won)2,920 billion in 2003, primarily as a result of higher loan loss provisions, a portion of which was recorded as non-interest expense as described below. In both 2002 and 2003, income tax allocation had a positive effect on the net loss from this segment, which increased from (Won)326 billion in 2002 to (Won)1,638 billion in 2003.

Interest income from our credit card operations decreased 24.2% from (Won)2,748 billion in 2002 to (Won)2,084 billion in 2003. This decrease was primarily due to a decrease in average volume of outstanding credit card balances, as a result of a high level of charge-offs, as well as increased market saturation, competition and government regulation. The average volume of cash advances and card loans decreased 23.6% from (Won)10,147 in 2002 to (Won)7,749 billion in 2003. The decrease in average outstanding credit card balances was enhanced by a decline in the average interest rates in respect of such outstanding balances from 17.4% in 2002 to 16.6% in 2003, as a result of increased delinquencies and the general decline in market interest rates. In addition, interest income declined because investment securities that Kookmin Credit Card had held were combined with us and, accordingly, the interest income from such investment securities was reclassified to the international banking and capital markets segment following its merger with us in September 2003.

Interest expense for our credit card operations decreased 25.3% from (Won)1,015 in 2002 to (Won)758 in 2003, due to decreased funding costs resulting from lower average balances of inter-segment borrowings and lower average interest rates in respect of such borrowings as a result of a decline in market interest rates. In addition, interest expense declined because debentures and borrowings of Kookmin Credit Card were combined with us and, accordingly, the interest expense from such debentures and borrowings was reclassified to the international banking and capital markets segment following its merger with us in September 2003.

(Won)1,438 billion of provision for loan losses relating to Kookmin Credit Card was recorded as non-interest expense in 2003, as part of a provision for loan losses due to the merger of Kookmin Credit Card with us. Excluding such amount, provision for loan losses increased 9.0% from (Won)2,434 billion in 2002 to (Won)2,654 billion in 2003 primarily due to higher levels of delinquent balances, as well as the application of higher regulatory minimum provisioning ratios required for banks with respect to balances previously held by Kookmin Credit Card following its merger with us. This increase in provision for loan losses was partially offset by reversals of provisions relating to collections of charged-off credit card loans.

Non-interest income decreased 10.1% from (Won)1,778 billion in 2002 to (Won)1,598 billion in 2003. This decrease resulted principally from a decrease in the total volume of credit card transactions, which led to a decrease in installation purchase fees and fees and commissions received from member merchants, who are charged from 1.0% to 4.5% or transaction amounts based on balance of credit and frequency of usage. In addition, non-interest income declined because trading and investment securities and derivatives of Kookmin Credit Card were combined with us and, accordingly, such revenues related to trading and investment securities and derivatives were reclassified to the international banking and capital markets segment following its merger with us in September 2003.

Non-interest expense, which includes depreciation and amortization, increased 122.8% from (Won)1,432 billion in 2002 to (Won)3,190 billion in 2003 primarily due to a provision for loan losses due to the merger of Kookmin Credit Card with us of (Won)1,652 billion (comprising a provision for loan losses of (Won)1,438 billion and a loss on valuation of securities of (Won)214 billion) for the nine-month period ended September 30, 2003. In addition, administrative expenses relating to the collection of delinquent balances increased due to an increase in such balances.

Comparison of 2002 to 2001

Our net income before tax for this segment decreased from a profit of (Won)769 billion in 2001 to a loss of (Won)355 billion in 2002. The loss in 2002 was primarily due to increased provisions for loan losses. For 2002, income tax allocation had a positive effect on the net loss from this segment, which was (Won)326 billion.

Interest income from our credit card operations increased 85.3% from 1,483 billion in 2001 to (Won)2,748 billion in 2002. This increase was primarily due to an increase in average volume of outstanding credit card balances, principally due to growth in our credit card portfolio as well as the full-year impact of the merger with H&CB. The average volume of cash advances and card loans increased 105.7% from (Won)4,933 billion in 2001 (of which (Won)4,347 billion related to Kookmin Credit Card) to (Won)10,147 billion in 2002 (of which (Won)6,611 billion related to Kookmin Credit Card). The increase in average outstanding credit card balances was partially offset by a decline in the average interests rates in respect of such outstanding balances from 17.9% in 2001 to 17.4% in 2002, and by Kookmin Credit Card s sale of (Won)6,673 billion of such balances through securitization transactions in 2002 (compared to (Won)1,688 billion in 2001). Outstanding credit card balances increased 6.2% from (Won)14,089 billion as of December 31,2001 to (Won)14,968 billion as of December 31, 2002.

Interest expense increased 61.4% from (Won)629 billion in 2001 to (Won)1,015 billion in 2002 due to increased funding costs as a result of higher average balances of interest bearing liabilities resulting from increased borrowings. Interest expense related to Kookmin Credit Card increased 27.7% from (Won)578 billion in 2001 to (Won)739 billion in 2002. In addition, our credit card segment paid interest expense of (Won)276 billion to other segments as funding costs. The increase in interest expense was partially offset by a decrease in average interest rates paid on borrowings by Kookmin Credit Card from 8.17% in 2001 to 7.18% in 2002 and by BC Card from 5.96% in 2001 to 5.00% in 2002.

Provision for loan losses increased 408.1% from (Won)479 billion in 2001 (of which (Won)428 billion related to Kookmin Credit Card) to (Won)2,434 billion in 2002 (of which (Won)1,548 billion related to Kookmin Credit Card) primarily due to an increase in outstanding credit card balances, higher levels of delinquent balances and increased charge-offs of non-performing balances during 2002. In addition, as a result of increased minimum provisioning ratios required by regulations promulgated by the Financial Supervisory Service and the Financial Supervisory Commission, our provision for loan losses for existing credit card balances and new credit card balances together increased (Won)484 billion (of which (Won)397 billion related to Kookmin Credit Card).

Non-interest income increased 49.0% from (Won)1,193 billion in 2001 to (Won)1,778 billion in 2002. This increase resulted principally from an increase in the total volume of credit card transactions, which led to an increase in fees and commissions received from member merchants. The increase also resulted from increased fees levied on customers who fail to pay outstanding balances when due.

Non-interest expense, which includes depreciation and amortization, increased 79.2% from (Won)799 billion in 2001 to (Won)1,432 billion in 2002 primarily due to an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, an increase in payments of fees and commissions, including expenses related to awarding mileage and bonus points to our credit card customers via awards programs, increased losses on sales and increased expenses relating to collection of delinquent balances.

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Corporate Banking

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

	Year ended December 31,			Year ended December 31,	
	2001	**2002**	**2003**	**2002/2001**	**2003/2002**
		(in billions of Won)		**(% change)**	
Income statement data					
Interest income	(Won) 2,958	(Won) 3,183	(Won) 3,398	7.6%	6.8%
Interest expense	2,093	2,296	2,234	9.7	(2.7)
Provision for loan losses	742	171	895	(77.0)	423.4
Non-interest income	267	247	288	(7.5)	16.6
Non-interest expense including depreciation and amortization	642	723	763	12.6	5.5
Net income (loss) before tax (1)	(252)	240	(206)	N/M	(185.8)
Income tax (1)(2)	(81)	74	(73)	N/M	(198.6)
Net income (1)	(Won) (171)	(Won) 166	(Won) (133)	N/M	(180.1)

(1) N/M = not meaningful.
(2) Portion of income tax allocated to this segment.

Comparison of 2003 to 2002

Our net income before tax for this segment decreased from a profit of (Won)240 billion in 2002 to a loss of (Won)206 billion in 2003, primarily due to increased provision for loan losses. For 2003, income tax allocation had a positive effect on net loss from this segment, which was (Won)133 billion.

Interest income from our corporate banking activities increased 6.8% from (Won)3,183 billion in 2002 to (Won)3,398 billion in 2003. This increase was primarily due to a 16.7% increase in average corporate lending volumes from (Won)40,391 billion in 2002 to (Won)47,153 billion in 2003, reflecting higher loan demand principally from small- and medium-sized enterprises. The effect of this increase was partially offset by a decrease in average interest rates from 7.30% in 2002 to 6.97% in 2003 principally as a result of the general decline in market interest rates.

Interest expense represents the internal transfer cost for the use of funds. Interest expense decreased 2.7% from (Won)2,296 billion in 2002 to (Won)2,234 billion in 2003. This decrease was primarily due to a 2.0% decrease in interest expense relating to inter-segment borrowing, primarily from our retail banking segment, from (Won)2,271 billion in 2002 to (Won)2,229 billion in 2003, as a result of a decline in the average inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

Provision for loan losses on commercial loans increased 423.4% from (Won)171 billion in 2002 to (Won)895 billion in 2003. This increase was primarily due to deterioration in the financial condition of two large corporate borrowers, LG Card and SK Networks (formerly SK Global). Deterioration in the asset quality of our loans to small- and medium-sized enterprises and an increase of the average volume of corporate loans also contributed to the increase in provision for loan losses.

Non-interest income increased 16.6% from (Won)247 billion in 2002 to (Won)288 billion in 2003. This increase was primarily due to an increase in gain on sales of loans from (Won)16 billion in 2002 to (Won)61 billion in 2003, as a result of the higher volume of such sales in 2003 compared to 2002. The increase was partially offset by a decrease in credit review fees, which resulted from the deferral and amortization of such fees as part of loan origination costs commencing in 2003 due to the adoption of a new accounting principle under Korean GAAP.

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Non-interest expense, which includes depreciation and amortization, increased 5.5% from (Won)723 billion in 2002 to (Won)763 billion in 2003 primarily due to an increase in losses on sales of loans resulting from transfers of non-performing loans to special purpose entities in 2003.

Comparison of 2002 to 2001

Our net income before tax for this segment improved from a loss of (Won)252 billion in 2001 to a profit of (Won)240 billion in 2002. For 2001, income tax allocation had a positive effect on net loss from this segment, which was (Won)171 billion.

Interest income from our corporate banking activities increased 7.6% from (Won)2,958 billion in 2001 to (Won)3,183 billion in 2002. This increase was primarily due to a 25.7% increase in average corporate lending volumes from (Won)32,130 billion in 2001 to (Won)40,391 billion in 2002 principally as a result of the full-year impact of the merger with H&CB. This increase was partially offset by the effects of a decrease in average interest rates from 8.63% in 2001 to 7.30% in 2002.

Interest expense represents the internal transfer cost for the use of funds. Interest expense increased 9.7% from (Won)2,093 billion in 2001 to (Won)2,296 billion in 2002. This increase was primarily due to a 12.1% increase in interest expense relating to increased inter-segment borrowing, primarily from our retail banking segment, from (Won)2,025 billion in 2001 to (Won)2,271 billion in 2002 as a result of the increased volume of our corporate loans and the full-year impact of the merger with H&CB. This increase was partially offset by a decline in inter-segment interest rates on such borrowings in line with the general decline in market interest rates.

Provision for loan losses on commercial loans decreased 77.0% from (Won)742 billion in 2001 to (Won)171 billion in 2002 primarily due to improvements in our corporate loan portfolio as a result of previous charge-offs of non-performing corporate loans and the smaller number of new loans provided to corporate borrowers.

Non-interest income decreased 7.5% from (Won)267 billion in 2001 to (Won)247 billion in 2002, primarily due to the reclassification of certain fees and commissions from the corporate segment to various other segments. This decrease was partially offset by an increase in commissions received in foreign transactions and gain on sales of loans.

Non-interest expense, which includes depreciation and amortization, increased 12.6% from (Won)642 billion in 2001 to (Won)723 billion in 2002 primarily due to an increase in general and administrative expenses resulting from an increase in the aggregate amount we paid for wages as a result of the full-year impact of having more employees after the merger with H&CB, and the full-year impact of the merger on other expenses. The increase was partially offset by a decrease in loss on sale of loans, as our corporate segment did not transfer any loans to special purpose entities in 2002.

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International Banking and Capital Markets

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won)			(% change)	
Income statement data					
Interest income	(Won) 1,871	(Won) 2,830	(Won) 3,120	51.3%	10.2%
Interest expense	1,813	3,089	3,080	70.4	(0.3)
Provision for loan losses (1)	58	(5)	(27)	N/M	440.0
Non-interest income	2,944	3,769	2,983	28.0	(20.9)
Non-interest expense including depreciation and amortization	2,788	3,110	2,239	11.5	(28.0)
Net income before tax	156	405	811	159.6	100.2
Income tax (2)	50	123	333	146.0	170.7
Net income	(Won) 106	(Won) 282	(Won) 478	166.0%	69.5%

(1) N/M = not meaningful.
(2) Portion of income tax allocated to this segment.

Comparison of 2003 to 2002

Our net income before tax for this segment increased 100.2% from (Won)405 billion in 2002 to (Won)811 billion in 2003.

Interest income increased 10.2% from (Won)2,830 billion in 2002 to (Won)3,120 billion in 2003. The increase was primarily due to an increase of interest income from inter-segment lending from our financial planning division, which is included in this segment, to other segments. In addition, interest income increased as a result of the reclassification into segment of income from securities that Kookmin Credit Card had held, as described above. These increases were partially offset by a decrease of income from trading and investment securities and from amounts due from financial institutions as a result of a decrease in the average volume of those products, as well as a decline in average interest rates due to the general decline in market interest rates.

Interest expense remained relatively constant at (Won)3,089 billion in 2002 compared to (Won)3,080 billion in 2003. This was primarily due to the offsetting effects of a decrease of interest expense relating to borrowings in both won and foreign currency as a result of the decline in the market interest rates, and an increase in interest expense resulting from the reclassification into this segment of expenses related to debentures and borrowings of Kookmin Credit Card, as described above.

Net reversal of provision for loan losses improved from (Won)5 billion in 2002 to (Won) 27 billion in 2003 primarily due to a decrease in the average volume of offshore loans in foreign currency in 2003 and improvements in the asset quality of our foreign loans.

Non-interest income decreased 20.9% from (Won)3,769 billion in 2002 to (Won)2,983 billion in 2003 primarily due to a 38.9% decrease in revenues on trading securities from (Won)283 billion in 2002 to (Won)173 billion in 2003 mainly as a result of a decrease in trading volume. In addition, revenues and valuation gains on derivatives decreased. These decreases were partially offset by an increase in gain on sales of investment securities, as well as the reclassification into this segment of revenues related to trading and investment securities and derivatives of Kookmin Credit Card, as described above.

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Non-interest expense, which includes depreciation and amortization, decreased 28.0% from (Won)3,110 billion in 2002 to (Won)2,239 billion in 2003 primarily due to an 43.2% decrease in loss on investment securities from (Won)472 billion in 2002 to (Won)268 billion in 2003 resulting from improved valuations of those securities and reduced losses on sales of such assets. In addition, losses relating to sales and valuations of derivatives and losses relating to sales of foreign currency decreased.

Comparison of 2002 to 2001

Our net income before tax for this segment increased 159.6% from (Won)156 billion in 2001 to (Won)405 billion in 2002.

Interest income increased 51.3% from (Won)1,871 billion in 2001 to (Won)2,830 billion in 2002. The increase was primarily due to an increase in interest income from inter-segment lending from our international banking operations to our other segments.

Interest expense increased 70.4% from (Won)1,813 billion in 2001 to (Won)3,089 billion in 2002 due primarily to an increase in interest expense as our capital markets operations borrowed more funds from other segments to fund its investment activities. In addition, interest expense relating to Won-denominated debentures increased from 2001 to 2002 as the average outstanding balance of such instruments increased primarily as a result of the full-year effect of the merger with H&CB. We also borrowed funds in foreign currencies and issued foreign currency-denominated debentures.

Provision for loan losses improved from a provision of (Won)58 billion in 2001 to a net reversal of provision of (Won)5 billion in 2002 primarily due to the recalculation of provisioning levels (including the reversal of some previously made provisions), the recovery of loans that had been previously charged off and a decrease in the outstanding loan balance of off-shore loans in 2002 and improvements in the asset quality of our foreign loans.

Non-interest income increased 28.0% from (Won)2,944 billion in 2001 to (Won)3,769 billion in 2002 primarily due to a 87.9% increase in revenues on investment securities, derivatives and trading securities from (Won)157 billion in 2001 to (Won)295 billion in 2002 as a result of improved valuations and gains on sales of those assets. This increase was partially offset by decreases in gains on the stock market stabilization fund and the special fund for corporate bonds and a decrease in fees from foreign currency selling.

Non-interest expense, which includes depreciation and amortization, increased 11.5% from (Won)2,788 billion in 2001 to (Won)3,110 billion in 2002 primarily due to an increase in expenses relating to investment securities from (Won)58 billion in 2001 to (Won)472 billion in 2002 as a result of losses relating to sales and valuations of such securities as a result of the decline in their market values. This increase was partially offset by a decrease in expenses relating to trading securities from (Won)126 billion in 2001 to (Won)28 billion in 2002 as a result of improved valuations and decreased losses on the sales of such securities.

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Other

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

	Year ended December 31,			Year ended December 31,	
	2001	2002	2003	2002/2001	2003/2002
		(in billions of Won)		(% change)	
Income statement data					
Interest income	(Won) 462	(Won) 454	(Won) 355	(1.7)%	(21.8)%
Interest expense	542	358	200	(33.9)	(44.1)
Provision for loan losses (1)	38	(73)	116	N/M	(258.9)
Non-interest income (2)	1,068	962	842	(9.9)	(12.5)
Non-interest expense including depreciation and amortization	584	1,030	871	76.4	(15.4)
Net income (loss) before tax	(Won) 366	(Won) 101	(Won) 10	(72.4)%	(90.1)%
Income tax (3)	80	38	14	(52.5)	(63.2)
Net income	(Won) 286	(Won) 63	(Won) (4)	(78.0)%	(106.3)%

(1) N/M = not meaningful.
(2) Including extraordinary income of (Won)175 billion in 2001.
(3) Portion of income tax allocated to this segment.

Comparison of 2003 to 2002

Our net income before tax for this segment decreased 90.1% from (Won)101 billion in 2002 to (Won)10 billion in 2003.

Interest income decreased 21.8% from (Won)454 billion in 2002 to (Won)355 billion in 2003. This decrease was primarily due to a 30% decrease of interest income in our guaranteed trust accounts from (Won)300 billion in 2002 to (Won)210 billion in 2003 as a result of a decrease in the average volume of interest earning assets in those accounts and a decline in average interest rates due to the general decline in market interest rates.

Interest expense decreased 44.1% from (Won)358 billion in 2002 to (Won)200 billion in 2003 primarily due to a decrease of interest expense in our guaranteed trust accounts as a result of a decrease in the average volume of interest bearing liabilities in those accounts and a decline in average interest rates. Also, interest expense paid to our non-guaranteed trust accounts increased due to an increase of the average volume of borrowings from such trust accounts.

Provision for loan losses changed from a net reversal of provision of (Won)73 billion in 2002 to a provision of (Won)116 billion in 2003 primarily due to the absence in 2003 of debt-to-equity conversions of our trust account loans, which had resulted in reversals of provision in 2002.

Non-interest income decreased 12.5% from (Won)962 billion in 2002 to (Won)842 billion in 2003 primarily due to a 22.0% decrease in trust fee income from our non-guaranteed trust accounts from (Won)318 billion in 2002 to (Won)248 billion in 2003, a 10.0% decrease in fee income from managing the National Housing Fund from (Won)195 billion in 2002 to (Won)175 billion in 2003, and a decline in non-interest income from our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account assets. These decreases were partially offset by an increase in commissions received from collecting amounts owed on delinquent loans through our KB Credit Information operations.

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Non-interest expense, which includes depreciation and amortization, decreased 15.4% from (Won)1,030 billion in 2002 to (Won)871 billion in 2003 primarily due to a decline in non-interest expense in our guaranteed trust accounts as a result of a decrease in the average volume of guaranteed trust account deposits.

Comparison of 2002 to 2001

Our net income before tax for this segment decreased 72.4% from (Won)366 billion in 2001 to (Won)101 billion in 2002.

Interest income decreased 1.7% from (Won)462 billion in 2001 to (Won)454 billion in 2002. The decrease was primarily due to the exclusion of interest income from subsidiaries that we did not consolidate in 2002 because of disposal, liquidation and merger activities involving these subsidiaries, but that were consolidated in 2001. Under Korean GAAP, if a subsidiary is liquidated or sold during a year, then none of that subsidiary s income or expenses is consolidated with the results of the parent company for any period during that year. In particular, interest income from two leasing companies in which we sold our interests in 2002, Kookmin Leasing Co. and Alpha Capital Corporation, was not consolidated in 2002. This decrease was partially offset by an increase in interest income in our guaranteed trust accounts as a result of the full-year impact of the merger with H&CB.

Interest expense decreased 33.9% from (Won)542 billion in 2001 to (Won)358 billion in 2002 primarily due to the exclusion of interest expense from subsidiaries that we did not consolidate in 2002 because of disposal, liquidation and merger activities involving these subsidiaries, but that were consolidated in 2001. In addition, interest expenses paid on subordinated debt decreased during 2002 as a result of the general decline in market interest rates in Korea from 2001 to 2002.

Provision for loan losses improved from a provision of (Won)38 billion in 2001 to a net reversal of provision of (Won)73 billion in 2002 primarily due to the reversal of a previously made allowance in respect of our guaranteed trust account assets as a result of the reversal of provisions relating to debt-to-equity conversions of our trust account loans to Ssangyong Motors, Kookmin Leasing (which was sold in December 2002) and Saehan of (Won)83 billion, as well as the improvement in the performance of trust assets.

Non-interest income decreased 9.9% from (Won)1,068 billion in 2001 to (Won)962 billion in 2002 primarily due to the exclusion of non-interest income from subsidiaries that we did not consolidate in 2002 but that were consolidated in 2001 and non-recurrence of gain in valuation of our subsidiaries based on the equity-method of accounting which occurred in 2001 but did not occur in 2002. The decrease was partially offset by a 43.9% increase in trust fee and commissions received from our non-guaranteed trust accounts from (Won)221 billion in 2001 to (Won)318 billion in 2002 and the reclassification of fee and commission income relating to ATMs (including cash dispensers) from the retail segment where that income was included in 2001 to this segment in 2002.

Non-interest expense, which includes depreciation and amortization, increased 76.4% from (Won)584 billion in 2001 to (Won)1,030 billion in 2002 primarily due to a loss on valuation in our 74.78% interest in Kookmin Credit Card (based on the equity method of accounting) resulting from the decrease in value of that interest as a result of the net loss suffered by Kookmin Credit Card in 2002, a loss on the consolidation of our interest in KB Investment Co., Ltd. and the full-year impact of the merger with H&CB. This increase was partially offset by the exclusion of non-interest expense from subsidiaries that we did not consolidate in 2002 but that were consolidated in 2001.

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Item 5B. ***Liquidity and Capital Resources***

Financial Condition

Assets

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

	As of December 31,			% Change	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won)				
Cash and cash equivalents	(Won) 3,041	(Won) 3,328	(Won) 3,170	9.4%	(4.7)%
Restricted cash	4,373	1,580	2,770	(63.9)	75.3
Interest-bearing deposits in other banks	592	564	563	(4.7)	(0.2)
Call loans and securities purchased under resale agreements	2,012	229	3,959	(88.6)	1,628.8
Trading assets	6,874	6,368	3,517	(7.4)	(44.8)
Investments (1)	26,231	24,223	22,427	(7.7)	(7.4)
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	36,113	40,072	41,096	11.0	2.6
Construction	4,141	6,385	6,061	54.2	(5.1)
Lease financing	568			(100.0)	
Other commercial	1,669	1,045	742	(37.4)	(29.0)
Total commercial	42,491	47,502	47,899	11.8	0.8
Consumer:					
Credit cards	16,751	22,643	15,322	35.2	(32.3)
Mortgage and home equity	37,194	46,195	52,477	24.2	13.6
Other consumer	23,312	28,066	28,727	20.4	2.4
Total consumer	77,257	96,904	96,526	25.4	(0.4)
Total domestic	119,748	144,406	144,425	20.6	
Foreign:					
Commercial and industrial	1,146	1,426	1,433	24.4	0.5
Total foreign	1,146	1,426	1,433	24.4	0.5
Deferred origination costs	66	119	127	80.3	6.7
Less allowance for loan losses	(3,508)	(5,195)	(5,772)	48.1	11.1
Total loans	117,452	140,756	140,213	19.8	(0.4)
Due from customers on acceptances	1,887	881	605	(53.3)	(31.3)
Premises and equipment, net	1,846	2,121	1,909	14.9	(10.0)
Accrued interest and dividends receivable	1,160	1,116	995	(3.8)	(10.8)
Security deposits	1,244	1,337	1,331	7.5	(0.4)
Goodwill and other intangible assets	743	631	818	(15.1)	29.6
Other assets	697	965	1,702	38.5	76.4
Total assets	(Won) 168,152	(Won) 184,099	(Won) 183,979	9.5%	(0.1)%

(1) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

Comparison of 2003 to 2002

Our assets remained relatively stable at (Won)183,979 billion as of December 31, 2003 compared to (Won)184,099 billion as of December 31, 2002, as increases primarily in mortgage and home equity loans and other consumer loans were largely offset by a decrease in credit card balances.

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Our loans (net of loan loss allowances) remained relatively stable at (Won)140,213 billion as of December 31, 2003 compared to (Won)140,756 billion as of December 31, 2002. Mortgage and home equity loans increased 13.6% from (Won)46,195 billion as of December 31, 2002 to (Won)52,477 billion as of December 31, 2003. Call loans and securities purchased under resale agreements increased 1,628.8% from (Won)229 billion as of December 31, 2002 to (Won)3,959 billion as of December 31, 2003. Commercial and industrial loans increased 2.6% from (Won)40,072 billion as of December 31, 2002 to (Won)41,096 billion as of December 31, 2003. Other consumer loans increased 2.4% from (Won)28,066 billion as of December 31, 2002 to (Won)28,727 billion as of December 31, 2003. These increases were offset by a (Won)7,321 billion decrease in credit card balances from (Won)22,643 billion as of December 31, 2002 to (Won)15,322 billion as of December 31, 2003, a (Won)2,851 billion decrease in trading assets from (Won)6,368 billion as of December 31, 2002 to (Won)3,517 billion as of December 31, 2003, a (Won)1,796 billion decrease in investments from (Won)24,223 billion as of December 31, 2002 to (Won)22,427 billion as of December 31, 2003, a (Won)212 billion decrease in premises and equipment, net, from (Won)2,121 billion as of December 31, 2002 to (Won)1,909 billion as of December 31, 2003 and a (Won)121 billion decrease in accrued interest and dividends receivable from (Won)1,116 billion as of December 31, 2002 to (Won)995 billion as of December 31, 2003.

Comparison of 2002 to 2001

Our assets increased 9.5% from (Won)168,152 billion as of December 31, 2001 to (Won)184,099 billion as of December 31, 2002, primarily due to increases in mortgage and home equity loans, other consumer loans and credit card balances.

Our loans (net of loan loss allowances) increased 19.8% from (Won)117,452 billion as of December 31, 2001 to (Won)140,756 billion as of December 31, 2002, primarily reflecting increases in mortgage and home equity loans, credit card balances, retail loans and loans to small- and medium-sized enterprises, as well as other growth in the loan portfolio due to increased loan demand. Mortgage and home equity loans increased 24.2% from (Won)37,194 billion as of December 31, 2001 to (Won)46,195 billion as of December 31, 2002. Credit card balances increased 35.2% from (Won)16,751 billion as of December 31, 2001 to (Won)22,643 billion as of December 31, 2002. Other consumer loans increased 20.4% from (Won)23,312 billion as of December 31, 2001 to (Won)28,066 billion as of December 31, 2002. Commercial and industrial loans increased 11.0% from (Won)36,113 billion as of December 31, 2001 to (Won)40,072 billion as of December 31, 2002. The growth in our total assets was partially offset by a (Won)2,793 billion decrease in restricted cash from (Won)4,373 billion as of December 31, 2001 to (Won)1,580 billion as of December 31, 2002, a (Won)2,514 billion decrease in trading assets and investments, a (Won)1,783 billion decrease in call loans and securities purchased under resale agreements from (Won)2,012 billion as of December 31, 2001 to (Won)229 billion as of December 31, 2002 and a (Won)1,006 billion decrease in due from customers on acceptances from (Won)1,887 billion as of December 31, 2001 to (Won)881 billion as of December 31, 2002.

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Liabilities and Stockholders Equity

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

	As of December 31,			% Change	
	2001	2002	2003	2002/2001	2003/2002
	(in billions of Won)				
Deposits					
Interest bearing	(Won) 110,895	(Won) 118,654	(Won) 128,144	7.0%	8.0%
Non-interest bearing	4,141	3,745	3,460	(9.6)	(7.6)
Call money	2,701	306	225	(88.7)	(26.5)
Trading liabilities	287	625	762	117.8	21.9
Acceptances outstanding	1,887	881	605	(53.3)	(31.3)
Other borrowed funds	10,812	15,856	12,895	46.7	(18.7)
Accrued interest payable	4,617	4,463	3,938	(3.3)	(11.8)
Secured borrowings	5,501	7,864	8,207	43.0	4.4
Long-term debt	16,626	20,165	16,607	21.3	(17.6)
Other liabilities	2,742	2,634	2,552	(3.9)	(3.1)
Total liabilities	(Won) 160,209	(Won) 175,193	(Won) 177,395	9.4%	1.3%
Minority interest	308	71	16	(76.9)	(77.5)
Common stock	1,588	1,641	1,682	3.3	2.5
Additional paid-in capital	4,960	5,146	5,393	3.8	4.8
Other	1,087	2,048	(507)	88.4	N/M
Stockholders equity	7,635	8,835	6,568	15.7	(25.7)
Total liabilities, minority interest and stockholders equity	(Won) 168,152	(Won) 184,099	(Won) 183,979	9.5%	(0.1)%

Comparison of 2003 to 2002

Our total liabilities increased 1.3% from (Won)175,193 billion as of December 31, 2002 to (Won)177,395 billion as of December 31, 2003, principally due to increases in interest bearing deposits, secured borrowings and trading liabilities.

Our interest bearing deposits increased 8.0% from (Won)118,654 billion as of December 31, 2002 to (Won)128,144 billion as of December 31, 2003, primarily due to increases in savings deposits, certificates of deposit and other time deposits. These increases were primarily attributable to growth in demand for our deposit services and an increased use of these funding sources due to their relatively lower cost. Secured borrowings increased 4.4% from (Won)7,864 billion as of December 31, 2002 to (Won)8,207 billion as of December 31, 2003.

Long term debt declined 17.6% from (Won)20,165 billion as of December 31, 2002 to (Won)16,607 billion as of December 31, 2003. Other borrowed funds declined 18.7% from (Won)15,856 billion as of December 31, 2002 to (Won)12,895 billion as of December 31, 2003. Accrued interest payable declined 11.8% from (Won)4,463 billion as of December 31, 2002 to (Won)3,938 billion as of December 31, 2003. Acceptances outstanding declined 31.3% from (Won)881 billion as of December 31, 2002 to (Won)605 billion as of December 31, 2003.

Our stockholders equity declined 25.7% from (Won)8,835 billion as of December 31, 2002 to (Won)6,568 billion as of December 31, 2003. This decline resulted principally from a decline in retained earnings, which was attributable mainly to our significant net loss in 2003.

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Comparison of 2002 to 2001

Our total liabilities increased 9.4% from (Won)160,209 billion as of December 31, 2001 to (Won)175,193 billion as of December 31, 2002, principally due to increases in interest bearing deposits, other borrowed funds and long-term debt.

Our interest bearing deposits increased 7.0% from (Won)110,895 billion as of December 31, 2001 to (Won)118,654 billion as of December 31, 2002, primarily due to increases in savings deposits, certificates of deposit and other time deposits. These increases were primarily attributable to growth in demand for our deposit services and an increased use of these funding sources due to their relatively lower cost.

Other borrowed funds increased 46.7% from (Won)10,812 billion as of December 31, 2001 to (Won)15,856 billion as of December 31, 2002 due primarily to increases in Won-denominated short-term debentures.

Long-term debt increased 21.3% from (Won)16,626 billion as of December 31, 2001 to (Won)20,165 billion as of December 31, 2002 due primarily to increases in long-term Won-denominated finance debentures.

The 43.0% increase in secured borrowings from (Won)5,501 billion as of December 31, 2001 to (Won)7,864 billion as of December 31, 2002 was due primarily to new asset securitization transactions Kookmin Credit Card entered into in 2002.

Our stockholders equity increased by 15.7% from (Won)7,635 billion as of December 31, 2001 to (Won)8,835 billion as of December 31, 2002. This increase resulted principally from an increase in retained earnings, which was attributable to an increase in voluntary reserves.

Liquidity

Since we are a retail bank, our primary source of funding (which includes deposits, long-term debt, borrowings from the Bank of Korea and other short-term borrowings, secured borrowings and call money) has historically been and continues to be customer deposits. Deposits amounted to (Won)115,036 billion, (Won)122,399 billion and (Won)131,604 billion as of December 31, 2001, 2002 and 2003, which represented approximately 76.3%, 73.5% and 77.6% of our total funding, respectively. We have been able to use increases in customer deposits in recent years to finance our operations generally, including meeting a portion of our liquidity requirements. We also use cash and cash equivalents, payments on loans and sales of short-term securities to meet our liquidity needs. Other sources of liquidity available to us include call money, borrowings from the Bank of Korea and other short-term borrowings which amounted to (Won)13,513 billion, (Won)16,162 billion and (Won)13,121 billion as of December 31, 2001, 2002 and 2003 and represented 9.0%, 9.7% and 7.7% of our total funding, respectively. These types of borrowings have maturities of less than one year. For a more detailed description of our funding sources, see Item 4B. Business Overview Financing.

We currently intend to participate in the bidding for an interest in either Korea Investment & Securities or Daehan Investment & Securities, which were acquired and recapitalized by the Korea Deposit Insurance Corporation on behalf of the Korean government due to the financial difficulties they were experiencing and are in the process of being auctioned by the Korea Deposit Insurance Corporation. Several potential domestic and overseas purchasers, including us, have submitted preliminary bids for each company and are conducting a due diligence review of each company. The Korea Deposit Insurance Corporation has announced that it intends to select one or more preferred bidders for each company in July 2004 and to complete the sale of its interests in the two companies by the end of 2004. Korea Investment & Securities had operating revenues of (Won)479 billion and a net loss of (Won)188 billion for the year ended March 31, 2004, each under Korean GAAP. Korea Investment Trust Management, which is a wholly owned subsidiary of Korea Investment & Securities and is one of Korea s largest investment trust companies, had (Won)17,624 billion of assets under management as of March 31, 2004 under Korean GAAP. Daehan Investment & Securities had operating revenues of (Won)665 billion and a net loss of (Won)121 billion for the year ended March 31, 2004, each under Korean GAAP. Daehan Investment Trust Management,

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which is a wholly owned subsidiary of Daehan Investment & Securities and is also one of Korea s largest investment trust companies, had (Won)19,324 billion of assets under management as of March 31, 2004 under Korean GAAP. We believe that the acquisition of a controlling interest in either of these companies will allow us to develop our investment trust management business. However, there is no guarantee that we will ultimately decide to participate in the bidding, or be ultimately selected as the purchaser, for either of these companies. If we purchase an interest in either of these companies, we intend to finance such purchase through cash flow from our operations and additional debt financings, as necessary.

The Financial Supervisory Commission of Korea requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require us to keep the ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see Item 4B Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

We are exposed to liquidity risk arising from withdrawals of deposits and maturities of our borrowings, as well as the need to fund our lending, trading and investment activities and the management of our trading positions. The goal of liquidity management is for us to be able, even under adverse conditions, to meet all of our liability repayments on time and fund all investment opportunities. For an explanation of how we manage our liquidity risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table sets forth our contractual obligations as of December 31, 2003.

	Payments due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in billions of Won)				
Long-term debt obligations	(Won) 16,607	(Won) 4,901	(Won) 4,944	(Won) 3,691	(Won) 3,071
Secured borrowings (1)	3,931	1,454	1,879	299	299
Financial guarantees	83	61	11		11
Performance guarantees	504	487	15	1	1
Credit derivatives	48		48		
Liquidity facilities to special purpose entities (2)	4,309	1,028	2,391	620	270
Loans sold with recourse to Korea Asset Management Corporation	8	1	3	3	1
Trust fund guarantees	3,262				3,262
Total	(Won) 28,752	(Won) 7,932	(Won) 9,291	(Won) 4,614	(Won) 6,915

(1) Excluding securities purchased under resale agreements.
(2) Including securities purchased under resale agreements.

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We enter into credit-related financial instruments with off-balance sheet risk in our normal course of business. Those instruments primarily consist credit of guarantees, commercial letters of credit, and secured lines of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. The primary purpose of those instruments is to generate fee income for us, in return for making credit support and funds available to our customers as required. The following table sets forth our credit-related off-balance sheet commitments as of the dates indicated.

	As of December 31,		
	2001	2002	2003
	(in billions of Won)		
Guarantees (1)	1,069	733	588
Commercial letters of credit	1,387	1,308	1,284
Unused lines of credit:			
Commercial (2)	23,408	23,732	21,958
Credit Card (3)	73,798	79,140	65,106
Consumer	6,968	3,775	9,934

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

(2) The merger played a major role in an increase of overall credit-related commitments. The increase in commercial unused lines of credit as of December 31, 2001 was primarily due to an increase in unused lines of credit for general loans and liquidity support for asset securitization vehicles. The unused line of credit for general loans was (Won)5,596 billion, (Won)1,499 billion and (Won)515 billion as of December 31, 2001, 2002 and 2003, respectively. Liquidity for asset securitization vehicles was (Won)7,434 billion, (Won)5,809 billion and (Won)5,730 billion as of December 31, 2001, 2002 and 2003, respectively. Includes commitments to extend credit with respect to borrowings that have a maturity of more than one year, which amounted to (Won)2,473 billion as of December 31, 2003.

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

For additional information regarding these commitments, see Note 35 to our financial statements.

Capital Adequacy

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

As of December 31, 2003, our capital adequacy ratio was 10.00%, compared to 10.41% as of December 31, 2002. This decrease resulted from decreases in our paid in capital and retained earnings due to the purchase of our treasury stock from the Korean government in December 2003 and our net loss in 2003.

As of December 31, 2002, our capital adequacy ratio was 10.41%, compared to 10.23% as of December 31, 2001. This increase resulted from increases in our retained earnings and our total core and supplementary capital and our issuance of subordinated notes.

As of December 31, 2001, our capital adequacy ratio was 10.23%, compared to 11.18% as of December 31, 2000. Our capital increased substantially in 2001 as a result of the merger with H&CB, in connection with which

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we issued 119,922,229 shares of our common stock to former stockholders of H&CB and we acquired a significant amount of subordinated debt from H&CB. However, the increase in our capital was outpaced by the increase in our risk-weighted assets resulting from the merger.

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

In November 2002, a subsidiary of Goldman Sachs Capital Koryo exercised its right to convert $200 million in convertible bonds into shares of our common stock. As a result of this conversion, we issued an additional 10,581,269 shares of our common stock, and our stockholders equity increased by (Won)234 billion.

In September 2003, we issued 8,120,431 shares of our common stock to shareholders of Kookmin Credit Card in connection with our merger with Kookmin Credit Card.

The following table sets forth a summary of our capital and capital adequacy ratios as of December 31, 2001, 2002 and 2003.

	As of December 31,		
	2001	**2002 (1)**	**2003**
	(in billions of Won, except percentage)		
Tier I capital:	(Won) 8,141	(Won) 9,178	(Won) 7,922
Paid-in capital	1,498	1,641	1,682
Capital reserves	5,568	5,791	6,060
Retained earnings	1,516	2,462	1,713
Minority interests in consolidated subsidiaries	309	252	17
Others	(750)	(968)	(1,550)
Tier II capital:	3,653	5,319	5,187
Revaluation reserves	177	177	177
Allowance for loan losses (2)	720	1,499	1,469
Subordinated debt (3)	2,715	3,562	3,473
Valuation gain on investment securities	41	81	68
Investment in non-consolidated equity investees (4)	(43)	(58)	(159)
Subordinated notes from securitizations			(210)
Total core and supplementary capital	11,751	14,439	12,740
Risk-weighted assets:	114,849	138,703	127,397
On-balance sheet	108,695	132,946	122,081
Off-balance sheet	6,154	4,929	4,160
Market risk		828	1,156
Capital adequacy ratio:	10.23%	10.41%	10.00%
Tier I capital	7.09	6.62	6.22
Tier II capital	3.18	3.79	3.78

(1) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66% and 6.28%, our Tier 2 capital ratio would have been 3.86% and 4.11% and our capital adequacy ratio would have been 10.47% and 10.09% as of December 31, 2002 and

2003, respectively.

(2) Reserves for possible loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent they represent up to 1.25% of risk-weighted assets.

(3) The subordinated debt representing 50% of Tier I capital is used in the calculation of Tier II capital.

(4) Equity investees engaged in banking and financial activities of which we own more than 15% are deducted from total capital, not deducted directly from Tier I and Tier II pursuant to the guidelines of the Financial Supervisory Service.

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In December 2003, we purchased 27,423,761 shares of our common stock in the Korean government s auction of the shares that it had owned, which reduced our capital adequacy ratio by 0.4% based on our financial condition as of December 31, 2003.

Recent Accounting Pronouncements

SFAS No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections

In April 2002, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 145, Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS No. 145 requires gains and losses from extinguishment of debt to be classified as extraordinary items only if they meet the criteria of unusual and infrequent occurrences in Accounting Principles Board Opinion (APB) No. 30, Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Any gain or loss on extinguishment that was classified as an extraordinary item in prior periods presented that does not meet the criteria in APB No. 30 for classification as an extraordinary item in prior periods will be reclassified. SFAS No. 145 also amends Statement No. 13 requiring sale-leaseback accounting for certain lease modifications. In addition, SFAS No. 145 amends other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. SFAS No. 145 is effective for fiscal years beginning after May 15, 2002; however, the provisions relating to sale-leaseback are effective for transactions after May 15, 2002.

The adoption of SFAS No. 145 required us to reassess the classification of the extraordinary gain on extinguishment of debt in 2001, as more fully described in Note 2 of our consolidated financial statements. Based on the reassessment under the criteria set forth in APB 30 for unusual and infrequent occurrences, we determined that the gain recognized on extinguishment of debt in 2001 does not qualify for extraordinary treatment. As a result, the gain on extinguishment of debt in 2001 was reclassified under other non-interest income with corresponding taxes payable to income tax expense in the consolidated statement of operations and comprehensive income. There was no impact on consolidated net income. The impact of such reclassification in 2001 was as follows:

	For the Year Ended December 31, 2001	
	As previously reported	**As revised**
	(in millions of Won)	
Income from continuing operations	1,643,836	1,728,430
Net income from continuing operations	938,549	997,088
Net income (loss) per common share Basic:		
Net income from continuing operations	4,447	4,724
Net income (loss) per common share Diluted:		
Net income from continuing operations	4,028	4,278

SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123, Accounting for Stock-Based Compensation to provide two alternative methods of transition for an entity that voluntarily changes its method of accounting for stock-based employee compensation to a fair-value based method. In addition, SFAS No. 148 amends the disclosure provisions of SFAS No. 123 to require prominent disclosures about the effects of using the fair-value method of accounting for stock-based compensation. We adopted SFAS No. 123, as amended by SFAS No. 148, effective January 1, 2003. The adoption of this statement did not materially affect our financial position or our results of operations.

SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. SFAS No. 149 amends and clarifies the accounting guidance on (1) derivative instruments (including certain derivative instruments embedded in other contracts) and (2) hedging activities that fall within the scope of SFAS No. 133. SFAS No. 149 also amends certain other existing pronouncements, which will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. We adopted SFAS No. 149 effective July 1, 2003. The adoption of this statement did not materially affect our financial position or our results of operations.

SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS No. 150 requires disclosure regarding the terms of those instruments and settlement alternatives. The guidance in SFAS No. 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. For private companies, mandatorily redeemable financial instruments are subject to the provisions of SFAS No. 150 for the fiscal period beginning after December 15, 2003. The adoption of this statement did not affect our financial position or our results of operations.

FASB Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, which addresses the disclosures to be made by a guarantor in its financial statements about its obligations under guarantees.

Interpretation No. 45 requires the guarantor to recognize a liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The initial measurement of this liability is the fair value of the guarantee at inception. The recognition of the liability is required even if it is not probable that payments will be required under the guarantee. The initial recognition and measurement provisions are effective for all guarantees within the scope of Interpretation No. 45 issued or modified after December 31, 2002.

The impact of adopting Interpretation No. 45 did not materially affect the consolidated financial statements. More information related to the adoption of Interpretation No. 45 is presented in Note 35 of our consolidated financial statements.

FASB Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51

In January 2003, the FASB issued Interpretation No. 46, Consolidation of Variable Interest Entities, which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. These entities are commonly referred to as special purpose entities although non-special purpose entities are also subject to this interpretation. The underlying principle behind Interpretation No. 46 is that if a business enterprise has the majority financial interest in an entity, which is defined in the guidance as a variable interest entity, the assets, liabilities and results of the activities of the variable interest entity should be included in the consolidated financial statements with those of the business enterprise. Interpretation No. 46 also explains how to identify variable interest entities and how an enterprise should assess its interest in an entity when deciding whether or not it will consolidate that entity.

The provisions of Interpretation No. 46 were applicable to variable interests in variable interest entities created after January 31, 2003. Variable interests in variable interest entities created before February 1, 2003, were originally subject to the provisions of Interpretation No. 46 no later than July 1, 2003. In October 2003, the FASB issued guidance that provided for a deferral of the effective date of applying Interpretation No. 46 to entities created before February 1, 2003, to no later than December 31, 2003. In addition, the deferral permitted a company to apply Interpretation No. 46 as of July 1, 2003, to some or all of the variable interest entities in which it held an interest, and the rest on December 31, 2003.

The provisions of Interpretation No. 46 were adopted for variable interests in variable interest entities created after January 31, 2003. The adoption of Interpretation No. 46 did have a significant impact on our consolidated financial statements.

In December 2003, the FASB issued a revision to Interpretation No. 46 (Interpretation No. 46 R), which clarifies and interprets certain provisions of Interpretation No. 46 without changing the basic accounting model in Interpretation No. 46. As a foreign private issuer, we must apply the provisions of Interpretation No. 46 R to those entities considered special purpose entities on January 1, 2004, and to other entities no later than December 31, 2004. We are still in the process of analyzing and interpreting Interpretation No. 46 R, and assessing the impact on our financial position and our operations. More information related to the adoption of Interpretation No. 46 and Interpretation No. 46 R is presented in Note 11 of our consolidated financial statements.

EITF 03-1, The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments

In November 2003, the Emerging Issues Task Force (EITF) reached a consensus on certain additional quantitative and qualitative disclosure requirements in connection with its deliberation of Issue 03-1 on the impairment model for available-for-sale and held-to-maturity securities under SFAS No.115. The required disclosures are presented in Note 10 of our consolidated financial statements.

Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements, prepared in accordance with Korean GAAP.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of (Won)7 billion. Substantial control is deemed to exist when the investor is the largest stockholder and owns more than 30% of the investee s voting shares. Korean GAAP does not require the consolidation of subsidiaries, or substantially controlled affiliates, where activities are dissimilar from ours.

Under Korean GAAP, financial statements of our trust accounts on which we guarantee a fixed rate of return and/or the repayment of principal are consolidated, whereby assets and liabilities of third parties held by such trusts are reflected as part of our consolidated assets and liabilities, and revenues and expenses generated from such third-party assets are reflected in our consolidated statement of operations. Activities between trusts and us are eliminated in consolidation.

Beginning January 1, 1999, our financial statements are prepared in accordance with financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Supervisory Commission.

Because of significant changes in Korean GAAP, which were applied by us in 1999, 2000, 2001, 2002 and 2003, the financial information included herein for those years is not directly comparable with previous periods. We have included narrative disclosure in the footnotes to more clearly identify where significant accounting policy changes have taken place, which line items would be affected and how the balances would be affected. The areas where such significant changes have occurred are as follows:

- trading and investment securities;
- deferred taxation;

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guarantees and acceptances (including allowances for losses); and

provision for loan losses.

Consolidated Income Statement Data under Korean GAAP

	Year ended December 31,					
	1999	2000	2001(1)	2002	2003	2003(2)
	(in billions of Won, except per common share data)					(in millions of US$, except per common share data)
Interest income	(Won) 6,853	(Won) 6,788	(Won) 8,304	(Won) 13,088	(Won) 13,085	$ 10,977
Interest expense	5,029	4,947	5,502	7,008	6,476	5,433
Net interest income	1,824	1,841	2,802	6,080	6,609	5,544
Provision for possible loan losses	1,387	916	1,414	3,196	4,638	3,890
Net interest income after provision for possible loan losses	437	925	1,388	2,884	1,971	1,654
Non-interest revenue (3)	2,886	3,753	5,325	5,775	4,921	4,128
Non-interest expense (4)	3,131	3,514	5,177	6,703	6,354	5,331
Operating income	192	1,164	1,536	1,956	538	451
Non-operating loss, net	(88)	(30)	(180)	(138)	(1,558)	(1,307)
Net (loss) income before income tax expense	104	1,134	1,356	1,818	(1,020)	(856)
Income tax (benefit) expense	121	448	560	612	(355)	(298)
Net (loss) income before consolidation adjustments	(17)	686	796	1,206	(665)	(558)
Minority interest in (losses) earnings of consolidated subsidiaries	(4)	(94)	(121)	65	(77)	(64)
Other (5)	(7)		162			
Net income	(Won) (28)	(Won) 592	(Won) 837	(Won) 1,271	(Won) (742)	$ (622)
Per common share data:						
Earnings per share-basic	(Won) (184)	(Won) 3,330	(Won) 4,188	(Won) 4,001	(Won) (2,275)	$ (1.91)
Earnings per share-diluted	(123)	2,849	4,003	4,001	(2,275)	(1.91)
Cash dividends per common share (6)	50	500	100	1,000		

Stock dividends per common share	300

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

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) Non-interest revenue includes fees and commission income, dividends on securities, gains on security valuations and disposals, gains on foreign currency transactions and gains from derivative transactions.

(4) Non-interest expense is composed of fees and commissions paid or payable, general and administrative expenses, losses on security valuations and disposals, losses on foreign currency transactions and losses from derivative transactions.

(5) Prior to 2000, we recorded changes of equity interest in subsidiaries due to additional share issuance by these companies as consolidation adjustments and amortized the balances over 5 years using the straight-line method. From 2000, in accordance with the revised accounting standards for the consolidated financial statements, such changes of equity interest are recorded in consolidated capital surplus.

(6) Ratios represent the periods to which the dividends relate.

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Consolidated Balance Sheet Data under Korean GAAP

	As of December 31,					
	1999	2000	2001(1)	2002	2003	2003(2)
			(in billions of Won)			(in millions of US$)
Cash and cash equivalents	(Won) 5,317	(Won) 6,403	(Won) 7,843	(Won) 4,791	(Won) 6,561	$ 5,504
Foreign exchange (3)						
Loans (4)(5)(6)	45,587	60,462	118,982	138,456	143,629	120,494
Less: allowance for doubtful accounts (7)	(2,367)	(2,250)	(2,641)	(3,312)	(3,703)	(3,107)
Trading securities (8)	4,250	3,806	11,634	9,273	7,178	6,022
Investment securities (8)	14,528	16,839	26,653	27,589	23,353	19,591
Premises and equipment, net	1,621	1,452	3,291	3,360	3,025	2,538
Other assets (9)(10)	4,015	4,386	6,837	6,969	6,730	5,647
Consolidation adjustment debit	29					
Total assets	72,980	91,098	172,599	187,126	186,773	156,689
Deposits	44,538	57,979	120,449	126,891	135,373	113,568
Borrowings (11)(12)	10,315	9,649	17,073	15,473	10,751	9,019
Debentures	9,313	11,648	13,861	23,450	19,183	16,093
Other liabilities (13)	5,305	7,571	11,939	10,957	12,978	10,888
Total liabilities	69,471	86,847	163,322	176,771	178,285	149,568
Minority interests in consolidated subsidiaries	21	215	309	252	17	14
Stockholders equity	3,488	4,036	8,968	10,103	8,471	7,107
Total liabilities, minority interest and stockholders equity	(Won) 72,980	(Won) 91,098	(Won) 172,599	(Won) 187,126	(Won) 186,773	$ 156,689

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

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) Foreign exchange represents holdings of foreign currency and bills bought in foreign currencies and are included in cash and cash equivalents and loans, respectively. The amounts of foreign currency and bills bought in foreign currencies as of December 31, 1999 were (Won)60 billion and (Won)827 billion, respectively. As of December 31, 2000, the amounts were (Won)74 billion and (Won)925 billion, respectively. As of December 31, 2001, the amounts were (Won)147 billion and (Won)1,006 billion, respectively. As of December 31, 2002, the amounts were (Won)187 billion and (Won)756 billion, respectively. As of December 31, 2003, the amounts were (Won)228 billion and (Won)534 billion, respectively.

(4) Loans represent the gross amount of loans, before adjustment for the allowance for loan losses. Accrued interest income is included within other assets.

(5) Credit card assets are included in loans. The amount of credit card assets was (Won)2,669 billion, (Won)6,214 billion, (Won)14,089 billion, (Won)14,968 billion and (Won)10,250 billion as of December 31, 1999, 2000, 2001, 2002 and 2003, respectively.

(6) Call loans are included in loans. The amount of call loans at December 31, 1999, 2000, 2001, 2002 and 2003 was (Won)377 billion, (Won)991 billion, (Won)1,497 billion, (Won)319 billion and (Won)1,659 billion, respectively.

(7)

The allowance for loan losses prior to December 31, 1999 was provided based on credit risk classifications of the loan portfolio in accordance with guidelines issued by the Financial Supervisory Commission. Estimated loan losses were determined by applying certain percentages to each credit risk classification. Under revised Korean GAAP, effective as of December 31, 1999, the Financial Supervisory Commission requires allowances to fully reflect a borrower s future capacity to repay using forward-looking criteria, rather than solely past performance, by applying the internal credit grading system developed by the reporting bank. The forward-looking criteria are applied only to large-sized corporate loans (loan exposure greater than (Won)1 billion), while consumer loans and small-sized corporate loans were classified by considering number of days delinquent, secured amounts, and possibility of collection. Pursuant to the regulations promulgated by the Financial Supervisory Commission, loans are classified as normal, precautionary, substandard, doubtful or estimated loss, and the allowance for loan losses is determined by applying a percentage within a certain range to those classifications.

(8) Under Korean GAAP, all debt securities and marketable equity securities are accounted for on a similar basis to U.S. GAAP. However, adjustments for impairment can be reversed up to the original cost of the investment.

(9) Guarantees and acceptances for which the amounts were determined do not appear on the balance sheet but are recorded as an off-balance sheet item in the notes to our consolidated financial statements. The amounts of guarantees and acceptances at December 31, 1999, 2000, 2001, 2002 and 2003, were (Won)2,111 billion, (Won)3,060 billion, (Won)2,825 billion, (Won)1,048 billion and (Won)811 billion, respectively.

(10) Other assets include leasehold deposits, accounts receivables, accrued interest income, prepaid expenses and unsettled debit of domestic exchange (which represents outstanding balances due from other banks generated in the process of fund settlements of domestic exchange, such as checks, bills, drafts, remittance exchange, ATM use and credit card network). Leasehold deposits are recorded as other assets on the balance sheet. Accumulated depreciation is recorded as a deduction from premises and equipment.

(11) Borrowings consist mainly of borrowings from the Bank of Korea, the Korean government and other banking institutions.

(12) Call money is included in borrowings at December 31, 1999, 2000, 2001, 2002 and 2003. The balance of call money as of those dates was (Won)974 billion, (Won)762 billion, (Won)2,701 billion, (Won)306 billion and (Won)522 billion, respectively.

(13) Under Korean GAAP, contingent losses with respect to guarantees and acceptances are recognized by applying the same classification methods and provision percentages used in determining the allowance for loan losses. Provisions are only applied to acceptances and guarantees classified as substandard, doubtful and estimated loss. The amounts of allowance as of December 31, 1999, 2000, 2001, 2002 and 2003 were (Won)28 billion, (Won)37 billion, (Won)44 billion, (Won)2 billion and (Won)1 billion, respectively. These amounts are included in other liabilities.

Profitability and Other Ratios under Korean GAAP

	Year ended December 31,				
	1999	**2000**	**2001**	**2002**	**2003**
			(percentages)		
Net income as a percentage of:					
Average total assets (1)	(0.04)%	0.72%	0.76%	0.71%	(0.38)%
Average stockholders equity (1)	(0.93)	15.74	15.47	11.47	(5.94)
Dividend payout ratio (2)		25.16	14.32	25.58	
Net interest spread (3)	2.40	2.14	2.11	3.93	3.53
Net interest margin (4)	2.73	2.45	2.59	3.87	3.72
Efficiency ratio (5)	66.48	62.82	63.51	56.54	55.11
Cost-to-average assets ratio (6)	4.49	4.28	4.67	3.75	3.61
Fee income as a percentage of total income (7)	8.13	13.95	15.5	13.10	13.57

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

(2) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.

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

(4) Net interest margin represents the ratio of net interest income to average interest earning assets.

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

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

(7) Fee income represents income other than interest income and other operating income, and excludes fees and commissions classified in those categories under Korean GAAP.

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Capital Ratios under Korean GAAP

	As of December 31				
	1999	2000	2001	2002	2003
	(percentages)				
Tier I capital adequacy ratio (1)	7.26	6.82	7.09	6.62	6.22
Tier II capital adequacy ratio (1)	4.12	4.36	3.18	3.79	3.78
Average stockholders equity as a percentage of average total assets	4.33	4.58	4.88	6.20	6.33

(1) The capital adequacy ratios are computed in accordance with the guidelines issued by the Financial Supervisory Commission, which guidelines are consistent with the capital adequacy accord reached by the Basle Committee of Banking Supervision, Bank for International Settlements in all material respects. The computation is prepared on a consolidated Korean GAAP basis.

(2) The method of calculating our capital and capital adequacy ratios changed from 2002. Had we calculated these ratios based on the calculation method in use as of December 31, 2001, our Tier 1 capital ratio would have been 6.66% and 6.28%, our Tier 2 capital ratio would have been 3.86% and 4.11% and our capital adequacy ratio would have been 10.47% and 10.09% as of December 31, 2002 and 2003, respectively.

Credit Portfolio Ratios under Korean GAAP

	As of December 31				
	1999	2000	2001	2002	2003
	(in billions of Won, except percentages)				
Non-performing loans (1)	(Won) 4,887	(Won) 3,921	(Won) 3,925	(Won) 4,126	(Won) 4,962
Non-performing loans as a percentage of total loans	10.72%	6.49%	3.30%	2.98%	3.45%
Non-performing loans as a percentage of total assets	6.70	4.30	2.27	2.20	2.66
Allowance for loan losses as a percentage of non-performing loans	43.53	48.97	46.96	40.04	44.62
Allowance for loan losses as a percentage of total loans	5.19	3.72	2.22	2.38	2.59
Non-performing credits as a percentage of total credits (2)	10.52	6.28	3.26	2.96	3.44
Won loans as a percentage of Won deposits (3)	92.48	97.86	97.36	95.20	97.35
Precautionary loans as a percentage of total loans	6.19	4.71	3.67	5.50	5.35
Precautionary and below loans as a percentage of total loans (4)	16.91	11.20	6.97	8.48	8.81
Precautionary and below loans as a percentage of total assets (4)	10.56	7.43	4.80	6.27	6.78
Allowance for loan losses as a percentage of precautionary and below loans (4)	28.28	29.46	25.24	19.37	22.20

(1) Non-performing loans are defined in accordance with regulatory guidance in Korea. In 1999, in addition to classifying credit quality into the five categories in accordance with standards defined by the Financial Supervisory Commission, we also took

into account the repayment capability of borrowers. Since 1999, the Financial Supervisory Commission has changed the definition of non-performing loans based on new classification criteria for the soundness of a bank s assets. Non-performing loans are still defined as substandard, doubtful and estimated loss, but certain adjustments are now made to substandard credits. Since 2000, regardless of default on interest payments, loans to workout companies are classified using the same strict standards as those applied to the other companies. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks.

(2) Credits include loans and confirmed guarantees and acceptances provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts. Loans, as defined for Korean GAAP purposes, include loans provided from our trust accounts (including bills purchased and privately placed debentures), as well as the total loan portfolio of the banking accounts.

(3) Under Korean GAAP, Won loans do not include bills bought in Won, advances for customers, credit card accounts, bonds purchased under resale agreements, call loans, private placement corporate bonds and loans in restructurings that have been swapped for equity in the restructured borrower. Including these items, our ratios as of December 31, 1999, 2000, 2001, 2002 and 2003 would have been 94.73%, 99.16%, 95.77%, 108.67% and 109.74%, respectively.

(4) As defined by the Financial Supervisory Commission.

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Reconciliation with Korean GAAP

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in Note 1 to our consolidated financial statements. These principles and policies differ in some respect from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and stockholders equity of the consolidated statements with Korean GAAP.

	2003
	(in millions of Won)
U.S. GAAP net income	(Won) (947,036)
1. Provision for loan losses, guarantees and acceptances	303,479
2. Sale of loans to the Korea Asset Management Corporation	(7,548)
3. Deferred loan costs	307
4. Equity method investments	10,295
5. Securities and hedging derivatives accounting	(41,596)
6. Other loan sale accounting	544,941
7. Fixed assets	(2,770)
8. Merger with Korea Long Term Credit Bank	(16,407)
9. Reversal of amortization of present value discounts	13,832
10. Foreign currency translation	16,560
11. Merger with H&CB	(263,543)
12. Minority interest	(128,641)
14. Reversal of asset revaluation	4,702
15. Amortization of intangible assets	101,662
16. Merger with Kookmin Credit Card	698
17. Others	(160,042)
Total of adjustments	375,929
Tax effect of adjustments	(170,643)
Korean GAAP net income	(Won) (741,750)
U.S. GAAP stockholders equity	(Won) 6,567,850
1. Provision for loan losses, guarantees and acceptances	1,676,152
2. Sale of loans to the Korea Asset Management Corporation	(29,856)
3. Deferred loan costs	(118,937)
4. Equity method investments	(31,223)
5. Securities and hedging derivatives accounting	50,787
6. Other loan sale accounting	(291,326)
7. Fixed assets	9,458
8. Merger with Korea Long Term Credit Bank	189,707
9. Reversal of amortization of present value discounts	36,853
10. Foreign currency translation	70
11. Merger with H&CB	192,576
12. Minority interest	(991,111)
13. Cumulative effects of disposition of subsidiaries	(31,703)
14. Reversal of asset revaluation	328,311
15. Amortization of intangible assets	210,737
16. Merger with Kookmin Credit Card	145,044
17. Others	435,802

Total of adjustments		1,781,341
Tax effect of adjustments		122,083
Korean GAAP stockholders equity	(Won)	8,471,274

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The following is a summary of the significant adjustments made to consolidated net income and stockholders equity to reconcile the U.S. GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We have established the U.S. GAAP loan loss allowance for impaired non-homogeneous loans based on (1) the present value of expected future cash flows discounted at the loan s effective interest rate, (2) the fair value of the collateral if the loan is collateral dependent or (3) observable market prices if available. For small balance homogeneous impaired loan portfolios and consumer loans, we have established the allowance for the loan losses based on an evaluation of the historical performance of the loan portfolios. Allowance for loans that are not impaired is based principally on historical migration patterns. Other factors that management considers when establishing reserves for loans include, but are not limited to, global and local economic events, delinquencies, changes in underwriting and changes in credit monitoring policies. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Provisioning Policy.

Under Korean GAAP, the allowance for loan losses is generally established based on the classification guidelines promulgated by the Financial Supervisory Commission, which require that the minimum allowance be established based on the classification of the loan. We used these guidelines in establishing the minimum reserves. Starting in 1999, we also established voluntary additional reserves on the individual credits to develop a certain level of consistency with international banking practices. Our reserve is established based on the following percentages as of December 31, 2002:

	2002		
	Corporate Loans	Consumer Loans	Credit Card Loans
		(percentages)	
Normal	0.50%	0.75%	1.00%
Precautionary	2.00%	8.00%	12.00%
Substandard	20.00%	20.00%	20.00%
Doubtful	50.00%	55.00%	60.00%
Estimated loss	100.00%	100.00%	100.00%

This adjustment also reflects the offsetting effects of (1) the consolidation of our trust accounts, which include loans and related reserves under Korean GAAP and (2) the deconsolidation of certain securitized loans and related reserves, which we recorded as sales under Korean GAAP.

2. Prior to fiscal year 1999, we sold a number of non-performing loans to the Korea Asset Management Corporation. The Korea Asset Management Corporation can put back certain loans to us when the performance requirements of such loans are not met. Under U.S. GAAP, we have recognized estimated possible losses as recourse liabilities at the date of sales, which are periodically updated. These estimates are based on portfolio loss history and character of certain specific credits. Under Korean GAAP, recognition of probable future losses related to the put-back options was not required. Effective January 1, 2001, recognition of probable future losses was required with respect to specific credits.

3. Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized as a yield adjustment over the life of the related loans, net of any related fees received. These costs relate to direct loan origination activities performed by us which include evaluating the prospective borrower s financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. Prior to January 1, 2003, Korean GAAP required that these origination fees and costs to be recognized as income or expense when received or paid and did not provide for deferral or amortization. Effective January 1, 2003, certain origination fees and costs were deferred and amortized as a yield adjustment over the life of the related loans.

4. In our consolidated financial statements under U.S. GAAP, we must include a proportionate share of the results of operations of our investments accounted for under the equity method, which is also presented on a U.S. GAAP basis. Consequently, the results of each of our equity method investments have been affected by the conversion from each investment s respective local GAAP to U.S. GAAP.

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5. Under U.S. GAAP, decreases in fair value with respect to securities classified as available-for-sale or held-to-maturity below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. In determining whether a decrease in fair value is other-than-temporary, the following are considered: the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, such a decrease must be determined to be permanent before a charge is made to income.

Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting are less prescriptive. This adjustment reflects the effects of the reversal of the hedge accounting treatment under Korean GAAP.

6. Under U.S. GAAP, the transfer of loans is recorded as a sale if specific and prescriptive criteria are met relating to the transferor s relinquishing control. If these criteria are not met, the transfer is treated as a secured borrowing. Certain loan transfers (including those in connection with asset securitization transactions) that qualified for derecognition as sales under Korean GAAP did not meet U.S. GAAP criteria for derecognition as sales.

7. With respect to our branch closures and the rental assets of Jooeun Industrial (which was dissolved in 2002), the impairment losses under Korean GAAP are different from U.S. GAAP. In addition, the estimated useful lives of fixed assets under Korean GAAP are different from U.S. GAAP. As a result, depreciation expenses were adjusted to reflect this difference.

The estimated useful lives of fixed assets under Korean GAAP are different from U.S. GAAP. As a result, depreciation expense was adjusted to reflect this difference.

8. In accordance with Korean GAAP, the value of consideration was based on the price of our common stock on the date that the transaction was consummated. In addition, the assets were recorded at their carrying values. This transaction created negative goodwill under Korean GAAP, which was recorded in stockholders equity. The application of U.S. GAAP resulted in goodwill because of a difference in the measurement of the purchase price and recording the related assets at fair value. The income statement adjustment represents the accretion to income of the difference between book value and fair value on the net assets acquired.

9. Under Korean GAAP, loans that are modified through troubled debt restructurings are carried at the lower of (1) the book value of the loan prior to restructuring and (2) the present value of the restructured loan. If carried at present value, the related present value discount is accreted to income over the remaining term of the restructured loan. This treatment is not permitted under U.S. GAAP and its reversal is reflected through this adjustment.

10. U.S. GAAP requires that all unrealized gains and losses arising from available-for-sale securities be recorded in accumulated other comprehensive income. Under Korean GAAP, the portion of unrealized gains and losses on available for sale securities arising from foreign currency translation are recognized in earnings.

11. Under Korean GAAP, the value of consideration was measured based on our stock price on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Korea Stock Exchange two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in negative goodwill due to the fact that the consideration paid was less than the fair value of H&CB s net assets acquired. Under

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Korean GAAP, goodwill was created because the value of consideration measured based on the consummation date was significantly higher. The income statement adjustment primarily reflects the following:

(a) Reversal of goodwill amortization that was recorded under Korean GAAP.

(b) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.

(c) Accretion to income or amortization to expense of the difference between the fair value and book values of the assets acquired and liabilities assumed.

(d) The amortization related to the core deposit and credit card relationship intangible assets acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of the related depositor and customer relationships, respectively.

12. The results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, allocation to minority of their share of the converted results of the respective subsidiaries has been affected.

Under Korean GAAP, minority interest is treated as a component of stockholders equity. Under U.S. GAAP, minority interest is not considered part of stockholders equity and is disclosed in the consolidated balance sheet between the liability section and the stockholders equity section.

13. The gain on sale of our disposed subsidiaries under Korean GAAP differs from that under U.S. GAAP, mainly due to the GAAP differences arising out of the treatment of these subsidiaries and the resulting differences in the carrying amounts of various assets and liabilities between Korean GAAP and U.S. GAAP.

14. Under Korean GAAP, asset revaluation is recognized on tangible assets, which is not permitted under U.S. GAAP. Accordingly, depreciation expense incurred on the increased book value due to asset revaluation under Korean GAAP has been reversed under U.S. GAAP.

15. Under U.S. GAAP, amortization expense in relation to core deposit intangibles and credit card intangibles, which were incurred in the merger with H&CB were recognized at (Won)70,218 million and (Won)31,868 million, respectively. Additionally, incurred capitalized software cost under Korean GAAP was (Won)424 million more than the amount recorded under U.S. GAAP.

16. Under Korean GAAP, the value of consideration was measured based on book value of Kookmin Credit Card s net assets on the consummation date of the merger, whereas under U.S. GAAP, the value of consideration was measured based on our average closing stock price on the Korea Stock Exchange two days before and after the date the merger was agreed to and announced. The application of U.S. GAAP resulted in positive goodwill due to the fact that the consideration paid was more than the fair value of Kookmin Credit Card s net assets acquired. Under Korean GAAP, goodwill was not recognized because the value of consideration measured based on the consummation date was the same as the book value of Kookmin Credit Card s net assets. The income statement adjustment primarily reflects the following:

(a) Costs that were directly related to the merger were expensed under Korean GAAP, whereas such costs were included in the cost of the merger under U.S. GAAP.

(b)

Accretion to income or amortization to expense of the difference between the fair value and book values of the assets acquired and liabilities assumed.

(c) The amortization related to the credit card relationship intangible assets acquired in the merger based on their estimated useful lives in proportion to the estimated run-off of customer relationships.

17. This adjustment reflects the effect of miscellaneous items, which are not individually material.

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Item 5C. ***Research and Development, Patents and Licenses, etc.***

Not Applicable

Item 5D. ***Trend Information***

These matters are discussed under Item 5A. and Item 5B. above where relevant.

Item 5E. ***Off-Balance Sheet Arrangements***

See Item 5B. Liquidity and Capital Resources Contractual Obligations and Off-balance Sheet Arrangements.

Item 5F. ***Tabular Disclosure of Contractual Obligations***

See Item 5B. Liquidity and Capital Resources Contractual Obligations and Off-balance Sheet Arrangements.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. ***Directors and Senior Management***

Board of Directors

Our board of directors, currently consists of three executive directors and 11 non-executive directors, has the ultimate responsibility for the management of our affairs. We currently do not have an executive director who serves as a standing member of the Audit Committee.

Our articles of incorporation provide that we may have no more than 30 directors and the number of executive directors must be less than 50% of the total number of directors. Each executive director has been elected for a three-year term of office, and each non-executive director has been elected for a one-year term. Terms are renewable and are subject to the Korean Commercial Code, the Bank Act and related regulations.

Our board of directors meets on a regular basis to discuss and resolve material corporate matters. Additional extraordinary meetings may also be convened at the request of any director or one of the six management committees that serve under the board of directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 9-1, 2-ga, Namdaemoon-ro, Jung-gu, Seoul 100-703, Korea.

Executive Directors

The table below identifies our executive directors as of the date of this annual report:

Name	Age	Position	Director Since	End of Term
Jung Tae Kim	56	President and Chief Executive Officer	November 1, 2001	October 31, 2004
Donald H. MacKenzie	55	Executive Director and Senior Executive Vice President of Risk Management Group	March 21, 2003	2006 (1)
Seong Kyu Lee	44	Executive Director and Senior Executive Vice President of Workout and Operations Group	March 23, 2004	2007 (1)

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

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None of the executive directors have any significant activities outside Kookmin Bank.

Jung Tae Kim is the President and Chief Executive Officer. Prior to being elected to his current position in 2001, he was the Chairman, President and Chief Executive Officer of H&CB, an executive director for Daeshin Securities Co., Ltd. and the Chief Executive Officer for Dongwon Securities Co., Ltd. Mr. Kim received a B.A. in business administration and an M.B.A. from Seoul National University.

Donald H. MacKenzie is an Executive Director and Senior Executive Vice President of the Risk Management Group. Mr. MacKenzie was seconded to us by ING Groep N.V. in 2000 as a senior advisor on risk management matters. Before coming to Korea, he had been the country manager for ING Bank N.V. in Japan, a managing director with ING Barings Limited, a vice president with Goldman Sachs and a partner at KPMG Peat Marwick. Mr. MacKenzie received a B.A. in economics from the University of British Columbia and a degree in accounting, finance and business administration from Simon Fraser University. He is also a member of the Canadian Institute of Chartered Accountants. Mr. MacKenzie is also an employee of ING Groep N.V.

Seong Kyu Lee is an Executive Director and Senior Executive Vice President of the Workout and Operations Group. Prior to being elected to his current position in 2004, Mr. Lee was a director at the Corporate Restructuring Coordination Committee. Prior to that, he was an executive director of Seoul Bank. Mr. Lee received a B.A. in business administration and an M.A. in economics from Seoul National University and a Ph.D. in business administration from Yonsei University.

Non-Executive Directors

Our non-executive directors are selected based on the candidates talents and skills in diverse areas, such as law, finance, economy, management and accounting. All 11 non-executive directors below were nominated by our Non-executive Director Nominating Committee.

The table below identifies our non-executive directors as of the date of this annual report:

Name	Age	Position	Director Since	Year Term Ends (1)
Moon Soul Chung	66	Non-Executive Director	November 1, 2001	2005
Sun Jin Kim	61	Non-Executive Director	November 1, 2001	2005
Dong Soo Chung	58	Non-Executive Director	March 22, 2002	2005
Richard Elliott Lint	58	Non-Executive Director	March 21, 2003	2005
Kyung Hee Yoon	57	Non-Executive Director	November 1, 2001	2005
Woon Youl Choi	54	Non-Executive Director	March 23, 2004	2005
Bernard S. Black	50	Non-Executive Director	March 21, 2003	2005
Suk Yong Cha	50	Non-Executive Director	March 21, 2003	2005
Wang Ha Cho	50	Non-Executive Director	March 23, 2004	2005
Ki Hong Kim	47	Non-Executive Director	March 21, 2003	2005
Young Soon Cheon	42	Non-Executive Director	March 23, 2004	2005

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Moon Soul Chung has been a Non-Executive Director since 2001 and is also Chairman of our board of directors. He is currently advisor of Mirae Corporation and a non-executive director of Dongwon Securities. Prior to that, Mr. Chung was president of Lycos Korea and chief executive officer of Mirae Corporation. He received a B.A. in religion and philosophy from Won Kwang University.

Sun Jin Kim has been a Non-Executive Director since 2001. He is currently chairman of Yuhan Chemical Industry Co. Prior to that, he was president of Yuhan Corporation, a member of the Advisory Committee on

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Stocks Practice of Korea Listed Companies Association, chief executive officer of Janssen Korea and vice president of Yuhan Corporation. Mr. Kim received a B.A. in business administration and an M.B.A. from Korea University.

Dong Soo Chung has been a Non-Executive Director since 2002. He served as the Deputy Minister of the Ministry of Environment from January 2001 to February 2002. Prior to that, he was the Assistant Minister of the Planning and Management Office at the Ministry of Planning and Budget. Mr. Chung holds a B.A. in business administration from Seoul National University and an M.A. in public administration from University of Wisconsin at Madison.

Woon Youl Choi was elected as a Non-Executive Director in 2004. He is currently the Dean of the Graduate School of Business Administration at Sogang University. Prior to that, Mr. Choi was the Chairman of the Korea Securities Association, Chairman of the KOSDAQ Committee and a member of the Monetary Policy Committee. Mr. Choi received a B.A. in business administration from Seoul National University and an M.B.A. and Ph.D. in business administration from the University of Georgia.

Richard Elliott Lint has been a Non-Executive Director since 2003. He is currently a consultant at Mercer Human Resource Consulting. Prior to joining Mercer Human Resource Consulting, Mr. Lint was the Deputy Chairman and Head of Oil Gas and Pipeline Group of Scotia Capital, the chief executive officer and chairman of Citibank Canada and a principal of McKinsey & Co. in Toronto, Canada. Mr. Lint received a B.A.SC. in industrial engineering and an M.B.A. from the University of Toronto.

Kyung Hee Yoon has been a Non-Executive Director since 2001. Mr. Yoon is currently the chairman and country manager for ABN AMRO Korea. Prior to that, he was the country manager and managing director for ING Securities Limited, Seoul branch, and the branch manager of ING Barings Securities, Ltd., Seoul Branch and a director at Baring Brothers Co., Ltd. He received a B.A. in Law from Seoul National University.

Bernard S. Black has been a Non-Executive Director since 2003. He is currently a professor of law at Stanford Law School. Prior to that, he was a professor of law at Columbia Law School and a senior policy advisor at the Harvard Institute for International Development. He received a B.A. in physics from Princeton University and an M.A. in physics from the University of California at Berkeley and a J.D. from Stanford Law School.

Suk Yong Cha has been a Non-Executive Director since 2003. He is currently president and chief executive officer of Haitai Confectionary and Foods Co., Ltd. Prior to that, he was the president and chief executive officer of Procter & Gamble Korea, president and chief executive officer of Ssangyong Paper Company and chief financial officer of P&G Asia headquarters in Hong Kong. He received a B.A. from the School of Management, State University of New York and an M.B.A. from the Johnson Graduate School of Management from Cornell University.

Wang Ha Cho was elected as a Non-Executive Director in 2004. Mr. Cho is currently a vice chairman at Kolon. Prior to that, he was a member of the Presidential Commission on Policy and Planning, the Chief Executive Offering of Tongyang Investment Bank and a member of the Financial Development Committee at the Ministry of Finance and Economics. Mr. Cho received a B.A. in law from Seoul National University and an M.B.A. and J.D. from the University of California at Los Angeles.

Ki Hong Kim has been a Non-Executive Director since 2003. Mr. Kim is currently a professor at Chungbuk National University. Prior to that, he was a research fellow at the Korea Institute of Fiscal Policy, a research director at the Korea Insurance Development Institute and an assistant governor at the Financial Supervisory Service. Mr. Kim holds a B.A. in business and economics from Barat College, an M.B.A. from the University of Missouri and a Ph.D. in business administration from the University of Georgia.

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Young Soon Cheon was elected as a Non-Executive Director in 2004. Ms. Cheon is currently a professor of business administration at Chungang University. Prior to that, she was an assistant professor at Baruch College, City University of New York and assistant professor at Kyunghee University. Mr. Cheon received a B.A. in business administration at Chungang University and an M.A. and Ph.D. in accountancy at the University of Georgia.

Any director wishing to enter into a transaction with Kookmin Bank in his or her personal capacity is required to obtain the prior approval of the Board of Directors. The director having an interest in the transaction may not vote at the meeting of the Board of Directors to approve the transaction.

Executive Officers

The table below identifies our senior executive officers who are not executive directors as of the date of this annual report:

Name	Age	Position
Jong Kyoo Yoon	48	Senior Executive Vice President; Retail Banking Group
Jeung Lak Lee	45	Senior Executive Vice President; Corporate Banking Group
Sang Jin Lee	48	Senior Executive Vice President; Credit Card Group
Yun Keun Jung	53	Senior Executive Vice President; Private Banking/Asset Management Group
Jung Young Kang	53	Senior Executive Vice President; Trust/National Housing Fund Group
Young Il Kim	51	Senior Executive Vice President; IT Services Group
Ki Sup Shin	48	Chief Financial Officer; Senior Executive Vice President; Finance/Strategy/Human Resources Group

None of the executive officers have any significant activities outside Kookmin Bank.

Jong Kyoo Yoon is a Senior Executive Vice President and the Head of the Retail Banking Group. Prior to joining us, he was a partner at Samil Accounting Corporation where he served as the deputy leader of the financial services group and the lead partner of the corporate finance and restructuring services group. Mr. Yoon holds a B.A. and a Ph.D. in business administration from Sungkyunkwan University and an M.B.A. from Seoul National University.

Jeung Lak Lee is a Senior Executive Vice President and the Head of the Corporate Banking Group. Prior to becoming a Senior Executive Vice President, he was general manager of Strategic Planning Team and Small- and Medium-sized Enterprise Team. Prior to joining us, he was chief executive officer of eValue and a consultant at McKinsey & Company. Mr. Lee received a B.A. in economics from Sungkyunkwan University and a Ph.D. in economics from Washington University

Sang Jin Lee is a Senior Executive Vice President and the Head of the Credit Card Group. Prior to becoming a Senior Executive Vice President, he was a vice president at Kookmin Credit Card. Mr. Lee holds a B.A. in agriculture from Seoul National University.

Yun Keun Jung is a Senior Executive Vice President and the Head of the Private Banking/Asset Management Group. Prior to becoming a Senior Executive Vice President, he was Head of the Taegu Regional Head Office. He holds a B.A. in business from Kyungki University and an M.B.A. from Yonsei University.

Jung Young Kang is a Senior Executive Vice President and the Head of the Trust/National Housing Fund Group. Prior to joining us, he was a tax judge at the National Tax Tribunal. Mr. Kang holds a B.A. in economics from Sungkyunkwan University, an M.A. in public administration from Seoul National University and an M.A. in economics from University of Indiana.

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Young Il Kim is a Senior Executive Vice President and the Head of the IT Services Group. Prior to becoming a Senior Executive Vice President, he was the Head of the Retail Banking Business Unit. Prior to joining us, he was an Executive Vice President of H&CB and served as a general manager of both the Strategic Planning Team and Risk Management Team of H&CB. Mr. Kim received a B.A. in science education from Seoul National University.

Ki Sup Shin is our Chief Financial Officer, a Senior Executive Vice President and the Head of the Finance/Strategy/Human Resources Group. Prior to becoming our Chief Financial Officer and a Senior Executive Vice President, he was the Head of the Capital Market Business Unit. Mr. Shin received a B.S. in physics from Seoul National University.

Item 6B. *Compensation*

The aggregate remuneration paid and benefits-in-kind paid by us to our chairman, our president and chief executive officer, our other executive directors, our non-executive directors and our executive officers for the year ended December 31, 2003 was (Won)9,103 million. In addition, for the year ended December 31, 2003, we set aside (Won)565 million for allowances for severance and retirement benefits for our chairman, our president and chief executive officer, the other executive directors and our executive officers.

We do not have service contracts with any of our directors or officers providing for benefits upon termination of their employment with us.

We have granted stock options to our president and chief executive officer and other directors and executive officers as described below. For all of the options granted, we may elect either to issue common shares or pay in cash the difference between the exercise and the market price at the date of exercise. Upon vesting, options may be exercised between three to seven years from the grant date, once restrictions on the exercise of options, including continued employment for at least two years from the grant date, lapse.

On November 16, 2001, our board of directors approved the Presidential Stock Option Plan. In accordance with the Presidential Stock Option Plan, we have granted 500,000 options to our president and chief executive officer and will grant up to 200,000 additional options if our stock price is the highest among the stocks of banks listed on the Korea Stock Exchange, based on the average daily closing price announced for three months prior to the commencement of the exercise period (or in the case of premature retirement, prior to the date of retirement). The calculation with respect to how many options will be granted is dependent on our financial performance and if certain financial targets have been met by us. These options vest over a three-year period beginning on November 16, 2001 and may be exercised up to eight years from the grant date. Exercised options can be settled through the payment of cash or the issuance of shares at our discretion. For additional information regarding our stock option plan, see Note 32 to our consolidated financial statements.

In 2003, we recognized (Won)13,347 million as compensation expense for the stock options granted under our incentive stock option plan. For additional information regarding our compensation expense in connection with our incentive stock option plan, see Note 32 to our consolidated financial statements.

Item 6C. *Board Practices*

See Item 6A. Directors and Senior Management above for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

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

- the Board Steering Committee;
- the Management Strategy Committee;

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the Risk Management Committee;

the Audit Committee;

the Compensation Committee; and

the Non-executive Director Nominating Committee.

Each committee member is appointed by the board of directors, except for members of the Audit Committee, who are elected at the general meeting of stockholders.

Board Steering Committee

The committee currently consists of four non-executive directors, consisting of Moon Soul Chung, Woon Youl Choi, Dong Soo Chung, Kyung Hee Yoon and Sun Jin Kim, together with our president and chief executive officer. The chairman of the Board Steering Committee is currently Moon Soul Chung, who is also Chairman of our board of directors. The Board Steering Committee is responsible for ensuring the efficient operations of the board and the facilitation of the board s functions. The committee is responsible for both recommending and reviewing candidates for director and recommending candidates for the committee. The committee also reviews and assesses the director compensation programs and retainer arrangements to attract qualified directors. The committee s responsibilities also include reviewing and assessing the board s structure and the effectiveness of that structure in fulfilling the board s fiduciary responsibilities. The committee holds regular meetings every six months.

Management Strategy Committee

The committee currently consists of seven non-executive directors, consisting of Woon Youl Choi, Moon Soul Chung, Wang Ha Cho, Ki Hong Kim, Young Soon Cheon, Richard Elliott Lint and Bernard S. Black, together with our president and chief executive officer. The chairman of the Management Strategy Committee is currently Woon Youl Choi. The Management Strategy Committee oversees our long-term strategy formulation and reviews management s proposals of new strategic initiatives. The committee also reviews any other strategy and performance related matters that the committee deems necessary. The committee holds regular meetings every quarter.

Risk Management Committee

The committee currently consists of six non-executive directors, consisting of Dong Soo Chung, Suk Yong Cha, Wang Ha Cho, King Hong Kim, Richard Elliot Lint and Bernard S. Black, together with our president and chief executive officer. The chairman of the Risk Management Committee is Dong Soo Chung. The Risk Management Committee oversees and makes determinations on all issues relating to our comprehensive risk management function. In order to ensure our stable financial condition and to maximize our profits, the committee monitors our overall risk exposure and reviews our compliance with risk policies and risk limits. In addition, the committee reviews risk and control strategies and policies, evaluates whether each risk is at an adequate level, establishes or abolishes risk management divisions, reviews risk-based capital allocations, and reviews the plans and evaluation of internal control. The committee holds regular meetings every quarter.

Audit Committee

The committee currently consists of four non-executive directors, consisting of Sun Jin Kim, Dong Soo Chung, Kyung Hee Yoon and Young Soon Cheon, together with an executive director, who serves as a standing member. We currently do not have an executive director who serves as a standing member of the Audit Committee. The chairman of the Audit Committee is Sun Jin Kim. 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,

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auditor s examinations, key financial statement issues and the administration of our financial affairs by the board of directors. In connection with the general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The committee holds regular meetings every quarter.

Compensation Committee

The committee currently consists of five non-executive directors, consisting of Kyung Hee Yoon, Moon Soul Chung, Sun Jin Kim, Woon Youl Choi and Suk Yong Cha. The chairman of the Compensation Committee is Kyung Hee Yoon. The Compensation Committee oversees our overall compensation strategy and ensures that our executives are compensated in a manner consistent with the compensation strategy and requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving executive compensation criteria and levels as well as the benefit plans and overseeing the overall succession planning for executives. The committee holds regular meetings every six months.

Non-executive Director Nominating Committee

The committee was created on October 24, 2002. The last meeting of the committee was on February 25, 2004 to nominate our current slate of 11 non-executive directors. The committee will oversee the selection of non-executive director candidates and recommend them annually sometime prior to the general stockholders meeting. The term of office of its members is from the first meeting of the committee held to nominate the non-executive directors until the nominated non-executive directors are appointed. The committee currently has no members. The committee will also oversee the establishment of the Council for Selection of Candidates for Non-executive Directors to assist in the impartial recommendation of non-executive director candidates.

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New York Stock Exchange s corporate governance standards and those that we follow under Korean law and in accordance with our own internal procedures. The following is a summary of such significant differences.

NYSE Corporate Governance Standards	**Kookmin Bank**
Director independence Listed companies must have a majority of independent directors.	The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange s standards), as 11 out of 14 directors are non-executive directors.
Executive Session Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.	Our non-executive directors hold semiannual meetings in accordance with the Regulation of the Board of Directors.
Nomination/Corporate Governance Committee	

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.	We have not established a separate nomination/corporate governance committee. However, four outside directors (including the chairman of our board) serve on the Non-executive Director Nominating Committee, established in accordance with applicable Korean law, and the committee presents proposals for the nomination of non-executive directors to the board. In addition, we receive advice from an ad hoc advisory board, composed of two to five independent experts, in connection with the nomination of non-executive directors.

NYSE Corporate Governance Standards	Kookmin Bank
Compensation Committee Listed companies must have a compensation committee composed entirely of independent directors.	We maintain a Committee composed of five non-executive directors.
Audit Committee Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.	We maintain an Audit Committee comprised of four non-executive directors and a standing member who satisfies the New York Stock Exchange s independence requirements. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act. We currently do not have a director who serves as a standing member of the Audit Committee.
Audit Committee Additional Requirements Listed companies must have an audit committee that is composed of more than three directors.	Our Audit Committee has five members, as described above.
Shareholder Approval of Equity Compensation Plan Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company s equity compensation plan.	We currently have two equity compensation plans: one providing for the grant of stock options to officers and directors; and an Employee Stock Ownership Plan, or ESOP. All material matters related to the granting stock options are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders approval. Matters related to the ESOP are not subject to shareholders approval under Korean law.
Corporate Governance Guidelines Listed companies must adopt and disclose corporate governance guidelines.	We are currently in the preliminary process of adopting corporate governance guidelines.
Code of Business Conduct and Ethics Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.	We have adopted a Code of Ethics and Business Conduct for Employees, a copy of which is filed as an exhibit to this annual report and which is also available on our website.

Item 6D. ***Employees***

The following table sets forth information, for the periods indicated, regarding our employees.

	As of December 31,		
	2001	2002	2003
Full-time employees	19,155	18,347	19,525
Contractual employees (1)	6,372	8,665	9,455

Managerial or executive employees	8,706	10,112	11,309
Members of Korea Financial Industry Union			
Kookmin Bank Chapter	8,885	8,446	8,342
H&CB Chapter	7,065	7,022	6,933
Members of the Korea Federation of Trade Unions			
Former Kookmin Credit Card Labor Union			1,215
Subsidiary full-time employees (2)	1,907	1,976	945

(1) Terms ranging from one month to five years for Kookmin Bank and the former Kookmin Bank, and from one month to one year for H&CB.

(2) Including executive officers.

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The increase in the number of contractual employees during the past three years, other than as a result of the merger, results from our cost-cutting initiative to replace positions with simple job responsibilities previously filled by full-time employees with contractual employees.

We consider our relations with our employees to be satisfactory. Every year, usually in May, our unions and our management negotiate and enter into a new collective bargaining agreement and negotiate annual wage adjustments. We currently have two union chapters of the Korea Financial Industry Union following the merger of the former Kookmin Bank and H&CB and one labor union of the Korea Federation of Trade Unions and negotiations are with representatives of these unions.

In connection with the merger between the former Kookmin Bank and H&CB, we encountered a number of difficulties with the labor unions of both banks, most of which have since been resolved. More recently, in connection with the merger of Kookmin Credit Card with us, in May 2003, the employees of Kookmin Credit Card called a strike to demand that the merger be stopped. We recently reached an agreement with those employees, and they returned to work. We subsequently reached an agreement with them relating to staffing, salaries and other benefits.

Our compensation packages consist of base salary and base bonuses. We also provide performance-based compensation to employees and management. Executive officers, heads of regional headquarters and employees in positions that require professional skills, such as fund managers and dealers, are compensated depending on their individual annual performance evaluation. Recently, we have also implemented a profit-sharing system in order to enhance the performance of our employees. Under this system, we pay bonuses to our employees, in addition to the base salary and depending on our annual performance.

We provide a wide range of benefits to our employees, including our executive directors. These benefits include medical insurance, employment insurance, workers compensation, employee and spouse life insurance, free medical examinations, child tuition and fee reimbursement, disabled child financial assistance and reimbursement for medical expenses.

Pursuant to the Korean National Pension Law, we prepay a portion of our accrued severance liabilities to the National Pension Corporation at the rate of 4.5% of each employee s annual wages. Our employees are also responsible for payment to the National Pension Corporation of 4.5% of their wages. Our employees are entitled to receive an annuity from the National Pension Corporation in the event they lose, in whole or in part, their earning ability.

Upon termination, our employees are entitled to receive severance payments pursuant to the Labor Standards Act of Korea. The amount received by any employee equals the amount equivalent to (1) 30 days salary, calculated by averaging the employee s daily salary for the three months prior to the date of the employee s departure, multiplied by (2) the number of continuous years during which the employee worked. For information regarding our severance payments, see Note 31 of the notes to our consolidated financial statements.

All of our employees are eligible to participate in our employee stock ownership association plan. We are not required to, and do not, make cash contributions to this plan. Members of our employee stock ownership association plan have pre-emptive rights to acquire up to 20% of our shares in public offerings by us pursuant to the Korean Securities and Exchange Act.

We operate human resources development programs to train future leaders, leadership programs for development and improvement of management skills and job skills enhancement programs to improve business skills. These educational training programs are being implemented through our four internal training centers, professional training institutions within Korea and overseas, advanced overseas financial institutions and correspondence training institutions. We also offer training programs at the Korea Banking Institute in order to train our employees in both basic functional and professional skills. We also are training our employees by giving each of our 200 senior managers a one-year paid leave to go back to school and upgrade their skills.

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Item 6E. ***Share Ownership***

Common Stock

As of December 31, 2003, the persons who are currently our directors or executive officers, as a group, held an aggregate of 156,817 shares of common stock of Kookmin Bank, representing approximately 0.047% of the outstanding Kookmin Bank common stock as of such date. None of these persons individually held more than 1% of the outstanding common stock of Kookmin Bank as of such date.

Stock Options

The following table is the breakdown of stock options with respect to our common stock which we have granted to our directors and employees. It describes grant date, position, exercise period, price and the number of options as of May 31, 2004.

		Exercise period			Number of	Number of	
Grant date	**Position when granted**	**Form**	**To**	**Exercise price**	**granted options (1)**	**exercised options**	**Number of exercisable options**
31-Oct-98	Chairman, President and CEO	01-Nov-01	31-Oct-04	5,000	400,000	390,000	10,000
27-Feb-99	Auditor and Executive Director	28-Feb-02	27-Feb-05	13,900	30,000	30,000	0
27-Feb-99	8 Senior Executive Vice Presidents	28-Feb-02	27-Feb-05	13,900	180,108	180,108	0
27-Feb-99	Non-Executive Director	28-Feb-02	27-Feb-05	13,900	10,000	10,000	0
28-Feb-00	Director and Executive Vice President	01-Mar-03	28-Feb-06	27,600	22,490	0	22,490
28-Feb-00	2 Senior Executive Vice Presidents	01-Mar-03	28-Feb-06	27,600	60,000	0	60,000
28-Feb-00	11 Non-Executive Directors	01-Mar-03	28-Feb-06	27,600	52,009	6,009	46,000
28-Feb-00	10 Employees	01-Mar-03	28-Feb-06	27,600	67,283	13,333	53,950
24-Mar-01	2 Senior Executive Vice Presidents	25-Mar-04	24-Mar-07	25,100	49,333	0	49,333
24-Mar-01	3 Non-Executive Directors	25-Mar-04	24-Mar-07	25,100	6,552	0	6,552
24-Mar-01	3 Employees	25-Mar-04	24-Mar-07	25,100	16,491	0	16,491
18-Mar-00	Chairman and CEO	19-Mar-03	18-Mar-05	23,469	41,460	1,300	40,160
18-Mar-00	Auditor and Executive Director	19-Mar-03	18-Mar-05	23,469	14,807	14,807	0
18-Mar-00	7 Non-Executive Directors	19-Mar-03	18-Mar-05	23,469	20,727	8,883	11,844
18-Mar-00	3 Senior Executive Vice Presidents	19-Mar-03	18-Mar-05	23,469	35,535	0	35,535
15-Mar-01	Chairman and CEO	16-Mar-04	15-Mar-09	28,027	29,614	0	29,614
15-Mar-01	Auditor and Executive Director	16-Mar-04	15-Mar-09	28,027	14,807	0	14,807
15-Mar-01	9 Non-Executive Directors	16-Mar-04	15-Mar-09	28,027	23,376	2,961	20,415
15-Mar-01	7 Senior Executive Vice Presidents	16-Mar-04	15-Mar-09	28,027	82,915	4,845	78,070
15-Mar-01	47 Employees	16-Mar-04	15-Mar-09	28,027	47,381	0	47,381
22-Mar-01	Auditor(6)	23-Mar-04	22-Mar-11	71,538	6,644	0	6,644
22-Mar-01	3 Vice Presidents(6)	23-Mar-04	22-Mar-11	71,538	15,502	0	15,502
16-Nov-01	President and CEO	17-Nov-04	16-Nov-09	X(2)	500,000	0	500,000
16-Nov-01	President and CEO	17-Nov-04	16-Nov-09	X	200,000(3)	0	200,000
16-Nov-01	Chairman	17-Nov-04	16-Nov-09	X	150,000	0	150,000
22-Mar-02	Auditor and Executive Director	23-Mar-05	22-Mar-10	Y(4)	9,963	0	9,963
22-Mar-02	8 Non-Executive Directors	23-Mar-05	22-Mar-10	Y	32,284	0	32,284

22-Mar-02	9 Senior Executive Vice Presidents	23-Mar-05	22-Mar-10	57,100	174,724	0	174,724
22-Mar-02	16 Employees	23-Mar-05	22-Mar-10	57,100	148,810	0	148,810
29-Mar-02	3 Non-Executive Directors(6)	30-Mar-04	29-Mar-11	129,100	9,990	0	9,990
26-Jul-02	Senior Executive Vice President	27-Jul-05	26-Jul-10	58,800	30,000	0	30,000
21-Mar-03	Auditor and Executive Director	22-Mar-06	21-Mar-11	Z(5)	30,000	0	30,000
21-Mar-03	11 Non-Executive Directors	22-Mar-06	21-Mar-11	Z	90,053	0	90,053
21-Mar-03	3 Senior Executive Vice Presidents	22-Mar-06	21-Mar-11	35,500	25,910	0	25,910
21-Mar-03	6 Employees	22-Mar-06	21-Mar-11	35,500	90,000	0	90,000
27-Aug-03	Senior Executive Vice President	28-Aug-06	27-Aug-11	40,500	5,091	0	5,091
09-Feb-04	4 Senior Executive Vide Presidents	10-Feb-07	09-Feb-12	46,100	35,000	0	35,000
09-Feb-04	4 Executive Vice Presidents	10-Feb-07	09-Feb-12	46,100	20,000	0	20,000
09-Feb-04	6 Employees	10-Feb-07	09-Feb-12	46,100	30,000	0	30,000
23-Mar-04	4 Non-Executive Directors	24-Mar-07	23-Mar-12	47,200	20,000	0	20,000
23-Mar-04	Senior Executive Vice President	24-Mar-07	23-Mar-12	47,200	10,000	0	10,000
					2,838,859	662,246	2,176,613

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(1) Some numbers of the granted options have been adjusted due to the merger and the early retirement of the grantees.
(2) Exercise price = 51,200 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4) / 100. The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period 207.25) / 207.25 x 100.
(3) Conditional options up to 200,000. Additional shares shall be granted if the weighted-average closing price of our common stock from August 17, 2004 to November 16, 2004 (or for the three months prior to his resignation, if he resigns earlier than his original tenure) is higher than the stock prices of any other bank listed on the Korea Stock Exchange. The number of options to be granted shall be based on total score, which calculated by the earned total scores of both ROE and market capitalization on November 17, 2004 (or on the date of his resignation, if he resigns earlier than his original tenure). The additional shares will not be exercisable if the CEO works less than 18 months or the earned total score is less than 80 points.
(4) Exercise price = 57,100 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.
(5) Exercise price = 35,500 Won x (1 + the increase rate of KOSPI Banking Industry Index x 0.4). The increase rate of KOSPI Banking Industry Index = (KOSPI Banking Industry Index as of the starting date of exercise period KOSPI Banking Industry Index as of the grant date) / KOSPI Banking Industry Index as of the grant date.
(6) Originally options with respect to common stock of Kookmin Credit Card, which have been converted into options with respect to our common stock.

Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS

Item 7A. *Major Stockholders*

The following table presents information regarding the beneficial ownership of our shares at December 31, 2003 by each person or entity known to us to own beneficially more than 5% of our outstanding shares.

Except as otherwise indicated, each stockholder identified by name has:

- sole voting and investment power with respect to its shares; and
- record and beneficial ownership with respect to its shares.

Beneficial Owner	Number of shares of common stock	Percentage of total shares of common stock (%)	Percentage of total shares on a fully diluted basis (%)
The Bank of New York (1)	35,000,566	10.41	10.41
Kookmin Bank (2)	30,016,623	8.92	8.92

(1) As depositary bank.
(2) In December 2003, we purchased 27,423,761 shares of our common stock in the Korean government s auction of the shares that it had owned.

As of December 31, 2003, executive and non-executive directors collectively owned 142,228 shares of our common stock, and our executive officers, excluding our chairman, our president and chief executive officer, and auditor and executive director owned 18,919 shares of our common stock.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of December 31, 2003.

Item 7B. ***Related Party Transactions***

As of December 31, 2001, 2002 and 2003, we had an aggregate of (Won)992 million, (Won)1,536 million and (Won)8,048 million, respectively, in loans outstanding to our executive officers and directors. In addition, as of such dates, we had loans outstanding to various companies whose directors or executive officers were serving

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concurrently as our directors or executive officers. See Note 37 of the notes to our consolidated financial statements. All of these loans were made in the ordinary course of business, on substantially the same terms, including interest rate and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectability or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

In June 1999, Goldman Sachs Capital Koryo, L.P., a fund managed by The Goldman Sachs Group, Inc., acquired (through its wholly owned subsidiaries Goldman Sachs Capital Chosun, Ltd. and Goldman Sachs Capital Shilla, Ltd.) an interest in the former Kookmin Bank in return for an investment of US$500 million in new common shares and convertible bonds, consisting of (Won)360 billion of new common shares (17,768,870 common shares at (Won)20,260 per share, as adjusted for the merger ratio of 1.688346:1) and US$200 million principal amount of subordinated convertible bonds with an original conversion price of (Won)14,200 per common share. As a result of subsequent sales of our common stock (including common stock obtained upon conversion of the convertible bonds) by Goldman Sachs Capital Koryo in June 2002 and November 2003, Goldman Sachs Koryo beneficially owned 1.14% of our outstanding common stock as of December 31, 2003. See See Item 4A. History and Development of the Company History History of the former Kookmin Bank.

In December 2002, we formally extended our strategic alliance agreement with ING Bank N.V., replacing its prior investment agreement with H&CB. Under the terms of the strategic alliance agreement, we are required to cause one nominee of ING Bank N.V. to be appointed as an executive director and senior executive vice president and another nominee to be appointed as a non-executive director so long as ING Groep N.V. and its affiliates maintain a minimum shareholding in us as defined in the strategic alliance agreement. In August 2003, our board approved and ratified an amended and restated strategic alliance agreement with ING Groep N.V. As a result:

- the exclusive alliance with respect to our bancassurance business was revised to a non-exclusive, commercial relationship-based alliance;
- ING Groep N.V. is required to maintain its current 3.78% beneficial ownership of shares of our common stock; and
- each party agreed to maintain its level of investment in ING Life Insurance Company, Korea Ltd. (which is currently 20% owned by us and 80% owned by ING Insurance International B.V.) and KB Asset Management (which is currently 80% owned by us and 20% by ING Insurance International B.V.) until August 29, 2006.

In August 2003, we also amended and restated our joint venture agreement with ING Insurance International B.V. and ING Life Insurance Company, Korea, Ltd. This agreement establishes the terms of the joint venture between us and ING Insurance International with respect to ING Life Insurance Company, Korea. Pursuant to this agreement, we have agreed to use our best commercial efforts to source and distribute insurance products produced and underwritten by ING Life Insurance Company, Korea at a percentage level that is approximately 30% of our total sales of insurance products produced and underwritten from all life insurance companies.

In August 2003, we also amended certain provisions in our joint venture agreement with ING Insurance International B.V. and KB Asset Management Co., Ltd. This agreement expands and establishes the terms of the joint venture between us and ING Insurance International with respect to KB Asset Management.

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

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Item 7C. ***Interest of Experts and Counsel***

Not Applicable

Item 8. FINANCIAL INFORMATION

Item 8A. ***Consolidated Statements and Other Financial Information***

See Item 18. Financial Statements and pages F-1 through F-71.

Legal Proceedings

Excluding the legal proceedings discussed below, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by any of us or our subsidiaries to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our consolidated financial condition or results of operations.

The Merger with H&CB

In March 2001, an individual filed a lawsuit with the Seoul District Court requesting the court to order a revocation of the merger. Despite the dismissal of certain motions filed in connection with the lawsuit, the case is still pending. In the meantime, additional persons have joined the lawsuit as plaintiffs. In November 2003, the Seoul District Court decided the case in our favor. The individual, however, appealed the decision to the Seoul High Court.

Other Proceedings

During the first quarter of 2004, the National Tax Administration of Korea completed a tax audit in respect of us for the fiscal years 1998, 1999, 2000 and 2001, as a result of which we were assessed (Won)123.3 billion for tax deficiencies. We have paid the entire amount, but are in proceedings to appeal the assessment.

On March 28, 2001, the Korea Fair Trade Commission ordered 15 financial institutions including H&CB to pay administrative fines in an aggregate amount of (Won)4.02 billion for using their superior market position to unfairly modify or contain the fees for cash advance service, installment purchase and late payment and transaction terms. H&CB was fined (Won)335.9 million, which was subsequently lowered to (Won)316.9 million upon appeal by H&CB on August 24, 2001. H&CB paid the administrative fine in full. In September 2001, we filed a lawsuit to revoke the fine. In May 2003, the Seoul High Court decided in our favor. The Korea Fair Trade Commission appealed this ruling. The case is still pending.

On January 9, 2002, the Korea Fair Trade Commission ordered seven banks, including us, to refrain from refusing to continue their business relationship with a particular business partner, Hana Bank. The banks filed a lawsuit with the Seoul High Court to revoke the order and, in October 2003, the Seoul High Court decided in our favor. The Korea Fair Trade Commission appealed this ruling in November 2003. The case is still pending.

On April 6, 2001, the Korea Fair Trade Commission fined Kookmin Credit Card (Won)235 million for allegedly using its superior market position to prevent other banks in our affinity program from altering fees paid by merchants and from reducing the payment cycle from merchants. In September, 2001 Kookmin Credit Card paid the administrative fine in full and filed a lawsuit with the Seoul High Court to revoke the order. The court ruled against Kookmin Credit Card in December 2002. Kookmin Credit Card appealed to the Supreme Court in January 2003. The case is still pending.

In April 2002, the Korea Fair Trade Commission ordered four domestic-based credit card companies to pay administrative fines in an aggregate amount of (Won)23.4 billion in connection with certain collusion and anti-competitive practices in fixing commission fees and credit card interest rates for cash advances, installment purchases and overdue accounts. Kookmin Credit Card was fined (Won)6.96 billion for anti-competitive behavior. In July 2002 Kookmin Credit Card paid the administrative fine in full; prior to this it filed a lawsuit in October 2002 with the Seoul High Court to revoke the order. The case is still pending.

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In November 2002, the Korea Fair Trade Commission fined five credit card companies (including Kookmin Credit Card) for allegedly discriminating against merchants at department stores by charging fees higher than those charged to merchants at discount stores. Kookmin Credit Card s portion of the fine amounted to (Won)640 million. In February 2003 Kookmin Credit Card paid the administrative fine in full and filed a lawsuit with the Seoul High Court to revoke the order.

Dividends

Dividends must be approved by the stockholders at the annual general meeting of stockholders. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See Item 10B. Memorandum and Articles of Association Dividends and Other Distributions.

The table below sets forth, for the periods indicated, the dividend per share of common stock and the total amount of dividends declared and paid by us in respect of each of the four years ended December 31, 2003. The dividends set out for each of the years below were paid within 30 days after our annual stockholders meeting, which is held no later than March of the following year. Dollar amounts have been converted from Won at the noon buying rate at the end of the relevant periods.

Fiscal year	Dividends per common share (1)(2)		Dividends per preferred share (2)		Total amount of cash Dividends paid
					(in millions of Won)
2000(3)	(Won) 844	$ 0.64	(Won) 50	$ 0.04	(Won) 151,009
2001(4)	400	0.34			29,967
2002(5)	1,000				325,233
2003(6)					

(1) Per share information for dividends paid prior to November 1, 2001 has been adjusted for the merger ratio of 1:1.688346.
(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,186.3 = US$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.
(3) On January 31, 2001 our board of directors passed a board resolution recommending a cash dividend of 10% to the stockholders of record as of December 31, 2000.
(4) On December 15, 2001, our board of directors passed a board resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to the stockholders who were registered in the stockholder registry on December 31, 2001.
(5) On March 3, 2003, our board of directors passed a board resolution recommending a cash dividend of (Won)1,000 per common share (before dividend tax), representing 20% of the par value of each share, for the fiscal year ended December 31, 2002. This resolution was approved and ratified by our stockholders on March 21, 2003.
(6) On February 9, 2004, our board of directors passed a board resolution recommending that no dividends be paid for the fiscal year ended December 31, 2003. This resolution was approved and ratified by our stockholders on March 23, 2004.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our stockholders, see Item 10E. Taxation United States Taxation and Korean Taxation Taxation of Dividends.

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Item 8B. ***Significant Changes***

Not Applicable

Item 9. THE OFFER AND LISTING

Item 9A. ***Offering and Listing Details.***

Market Price Information

The principal trading market for our common stock is the Korea Stock Exchange. Our common stock has been listed on the Korea Stock Exchange since November 9, 2001, and the ADSs have been listed on the New York Stock Exchange under the symbol KB since November 1, 2001. The ADSs are identified by the CUSIP number 50049M109.

The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Korea Stock Exchange for our common stock and, for periods prior to the merger, for the common stock of the former Kookmin Bank (not adjusted for the merger ratio), and the high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Korea Stock Exchange (1)			New York Stock Exchange (2)		
	Closing price per common stock (3)		Average daily trading volume	Closing price per ADS		Average daily trading volume
	High	Low	(in thousands of shares)	High	Low	(in thousands of shares)
2000	(Won) 21,100	(Won) 9,200	3,340.3			
2001						
First Quarter	18,900	13,200	2,700.9			
Second Quarter	17,750	12,250	1,975.9			
Third Quarter	20,600	15,600	1,891.4			
Fourth Quarter (to October 31)	20,000	16,600	1,754.7			