



We are KB

The Shining *STAR* in the Financial World

Annual Report 2003



| P r o f i l e |

Headquartered in Seoul, with offices in New York, Hong Kong, Tokyo, London, Luxembourg, Auckland, and a representative office in Guangzhou, KB offers a wide range of financial products and services, from retail, corporate banking and credit card to private banking, asset management, mobile banking, and bancassurance. We are the largest financial services company in Korea, with over 24 million customers, 1,136 branches nationwide, and KRW 184 trillion in total assets. As a product provider, processor, and distributor, we aim to become the guiding star in our customers' bright financial future.

World-Class Personal Financial Service Provider

KB's vision is to become a world-class personal financial services provider. To pursue this vision, we are connecting our multi-specialist strategy to our unrivaled retail expertise and network. Our management philosophy for shareholder value, transparency and accountability, customer satisfaction, and performance-based culture will help KB emerge as the shining star in the financial world.

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Financial Highlights

	2003	2002 ¹⁾	2003 ²⁾	2002 ^{1,2)}
Financial Data	(KRW in trillions)		(USD in billions)	
Total assets	184	183	154	152
Total liabilities	176	173	147	144
Total shareholders' equity ³⁾	8	10	7	8
Total loans	140	127	117	106
Substandard & below loans	5	4	4	4
Total deposits	136	126	113	105
Operating Data	(KRW in billions)		(USD in millions)	
Interest income	5,723	4,981	4,778	4,149
Non-interest income	1,511	1,688	1,261	1,406
Operating income	76	1,604	63	1,336
Net income	(753)	854	(629)	711
Operating income before provisioning	4,530	4,005	3,782	3,336
Per Share Data	(KRW)		(USD)	
Earnings per share (EPS)				
- Basic	(2,311)	4,123	(1.93)	3.43
- Diluted	(2,311)	4,123	(1.93)	3.43
Dividend per share (DPS)	-	1,000	-	0.83
Financial Ratios	(%)			
Return on assets (ROA)	(0.42)	0.81		
Return on equity (ROE)	(7.76)	13.04		
Net interest margin (NIM)	3.30	3.39		
Loans to deposits	93.4	94.0		
Substandard & below loans ratio	3.59	3.01		
Coverage ratio	73.5	79.4		
Cost income ratio	37.9	41.7		
Capital Ratios	(%)			
Tier I capital	6.22	6.62		
Tier II capital	3.78	3.79		
BIS capital adequacy ratio (CAR)	10.00	10.41		

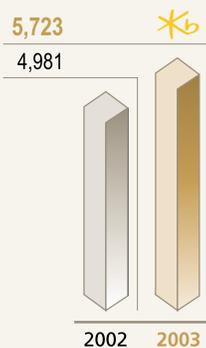
1) KB merged with Kookmin Credit Card (KCC) on September 30, 2003

The financial figures are pro-forma based records assuming that the merger with KCC occurred on September 30, 2002

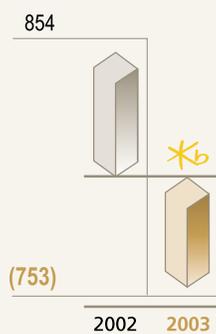
2) Korean amounts are converted into US\$ 1.00 at KRW 1,200.4 and KRW 1,197.8; the effective exchange rate as of December 31, 2002 and 2003, respectively

3) Treasury stock (book value of KRW 1.3 trillion) is not included

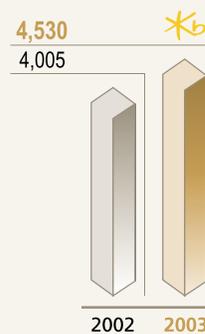
Interest Income
(KRW in billions)



Net Income
(KRW in billions)



Operating Income before Provisioning
(KRW in billions)



Return on Assets (ROA)
(%)



Return on Equity (ROE)
(%)



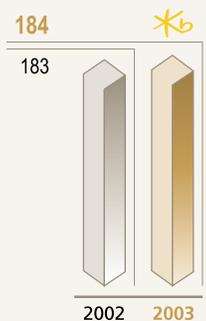
Net Interest Margin (NIM)
(%)



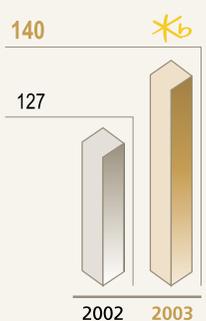
Coverage Ratio
(%)



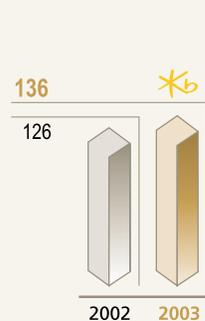
Total Assets
(KRW in trillions)



Total Loans
(KRW in trillions)



Total Deposits
(KRW in trillions)



Letter to the Stakeholders



All of us at KB are ready to strive for a strong turn around in 2004, overriding the disappointing performance of last year. Our top priority is to restore our profitability, proving that we are ready to leap forward once again.



Unfavorable Business Environment in 2003

The business environment in 2003 was challenging and banks had to work hard to endure such difficulties. The Korean economy experienced a slowdown from late 2002 that continued throughout the year, though it started to turn around in the latter half of the year. As a retail-oriented bank, KB's business base largely depends on the health of the domestic economy, and as such, the business environment was particularly unfavorable to us.

Set against the decelerated-growth environment, the domestic financial market experienced instability from rising household debt levels and increasing loan delinquencies. The fraudulent financial reporting by SK Networks (formerly SK Global) and the liquidity crisis of LG Card also contributed to the instability. Although KB made tremendous progress in establishing market leadership positions in new products, the quality of our loan portfolio suffered, and our operating income after provisions recorded a loss for the first time in KB's history.

Operating Results

Financial Results and Conditions

Throughout the adverse environment, KB slowed loan growth and focused on improving asset quality. Our total assets stood at KRW 184 trillion, up by 0.7%, and total loans grew by 10.2% to reach KRW 140 trillion as of the end of 2003. Despite the slower loan growth in comparison to the previous years, we continued to widen our deposit base, which grew by 7.4% to total KRW 136 trillion. Although growth in our core banking business was sound throughout 2003, the trust business was weak due to the low interest rate environment, and subsequently, trust assets decreased by KRW 11 trillion from 2002 to record at KRW 32 trillion.

KB achieved a robust operating income before provisioning of KRW 4,530 billion, up by 13.1%. However, such strong earnings were offset by unprecedented loan loss provisions, and we regretfully reported a net loss of KRW 753 billion. Disappointed with poor results, all members of KB worked hard to overcome rising delinquencies and asset quality deterioration by improving our risk management, collection

Multi-Specialist Strategy

KB's Multi-Specialist Strategy is to focus on what we do best; namely, develop and outsource high quality financial products and services, create efficient process and information technology, and build a marketing-and-sales competence with differentiated distribution channels for our customer segments. Through this business strategy, we provide our customers with tailored services through specialized channels—with each approach developing its own competencies to harness greater customer satisfaction and sales.

While keeping true to our traditional retail banking strength, KB's business strategy is to leverage competitive advantages—including an unrivaled distribution network and customer base, economies of scale in operations, and a performance-based culture that attracts high-caliber employees—to successfully enter new growth markets such as bancassurance, asset management, and mobile banking .

Letter to the Stakeholders

process, and stringent credit disciplines. We applied rigorous efforts to prevent a recurrence of such losses and to ensure we achieve sustainable profitability moving forward.

... Positive Operating Momentums

Cost reduction: Our ongoing cost cutting efforts resulted in the reduction of cost-income ratio, from 41.7% in 2002 to 37.9% in 2003. This takes into effect the marginal 1.4% rise in G&A expenses, which was significantly lower than the previous year. We also closed and merged 120 branches, offered early retirement programs, and reorganized our headquarters to be more efficient and functionally driven.

New products and market leadership: KB continued to develop new businesses in 2003. Our initial success in bancassurance, structured deposits, and investment trust product sales demonstrated our ability to establish market leadership by leveraging our unrivaled retail network. We were also the first to introduce a high degree of convenience and flexibility in mobile-banking transactions, and we continued to successfully promote 'Lotto' sales. Our success

in launching new financial products and services has enabled us to diversify our revenue sources and secure a more profitable fee income.

Business rationalization: We took preemptive measures to resolve liquidity concerns and uncertainties at Kookmin Credit Card (KCC) and merged KCC into our internal BC Card operations to form KB Card. Although we subsequently took an unprecedented provision for loan losses in the credit card business, we also set in place the framework for maximizing future profitability and stability. We now expect to see higher asset quality and smaller provisions, and the improving competitiveness of KB Card through its ability to leverage KB's low-cost funds and customer database, and build more value-added services on a single KB Card brand.

In addition, we secured full privatization by purchasing the Korean government's remaining stake in KB. We also made a small step forward into Asia as part of our long-term vision of becoming a leading retail bank in the region. We invested

|| Awards and Recognitions in 2003 ||

2·0·0·3

January

- Best IR Firm in Korea for four consecutive years (Asiamoney, Jan. 20)
- Best Bank for Corporate Governance in Korea (Asset, Jan. 22)
- Best Retail Bank in Korea for 2002 (Asian Banker, Jan. 22)

March

- Top Brand Power for five consecutive years (Korea Management Association, Mar. 4)

- Second Best IR Firm, second best firm in realizing the value of stockholders, and second best firm in corporate governance in Korea (FinanceAsia, Mar. 24)

April

- Best Firm in the Global Financial Industry (Forbes, Apr. 8)
- Top 10 firms in Corporate Governance in Asia (CLSA and Asia Corporate Governance Institution, Apr. 15)

May

- Best Bank in Korea for 2003 (Asiamoney, May. 22)
- Best Firm selected by female customers (Woman Times, a Korean magazine, May. 23)

June

- Best Firm in Korea for three consecutive years according to consumers' evaluation (Korea Management Association Consulting, Jun. 4)
- Best Local Bank in Korea for five consecutive years (FinanceAsia, Jun. 23)
- Best IR Firm in the Asian Financial Industry (Reuters, Jun. 24)

in Bank Internasional Indonesia (BII), a move that will allow us to gain valuable expertise outside Korea. However, we will pursue our regional strategy extremely cautiously and on a gradual, step-by-step basis.

... Socially Responsible KB

Our landmark privatization in December 2003 served to renew our commitment to protecting shareholder value through exemplary, transparent and ethical corporate governance.

Our commitments as outlined in Ethical Management Program, KB Code of Ethics, and Corporate Governance Charter will help build KB's management and information integrity and credibility. As a part of that commitment, we recognize our responsibility in molding a healthy corporate culture that embraces its broader role as a corporate citizen, and shares with its society the benefits and support that KB receives from our customers, communities, and investors.

What's Ahead

Although the market consensus on the global and domestic economy outlook and business environment for 2004 is relatively positive, we maintain a more conservative stance based on lingering uncertainties in the domestic economy and an incomplete credit cycle. Moreover, the competitive landscape in the banking industry could change with the inroads of international banks into the domestic market. We will therefore put forth our utmost efforts to reinforce our competitiveness in building profitability in businesses such as private banking, credit card, and asset management. At the same time, we will continue to further enhance risk management, improve asset quality, and tighten cost-controls. The year 2004 will mark the period in which we lay the necessary foundation to achieve our medium-term management targets of becoming one of the global top 30 banks in market capitalization.

July

- Best Firm in Corporate Governance in Korea (Korea Stock Exchange, Jul. 3)
- 30th among the top 200 firms in the emerging markets (Business Week, Jul. 4)
- 173rd place in the world's top 500 firms (Forbes, Jul. 4)
- Best Bank in Korea for five consecutive years (Euromoney, Jul. 7)
- 29th globally, 6th in Asia and 1st in Korea in project financing arrangement (Project Finance International, Jul. 22)
- 60th in terms of Tier I Capital and 73rd in total assets in the world (The Banker, Jul. 23)

September

- Model Firm in Ethical Management (The Federation of Korean Industries, Sept. 5)
- Best Firm selected by fund managers & analysts (The Korean Economic Daily, Sept. 19)

October

- 5th in brand value in Korea and 1st in banking industry in 2003 (The Institute for Industrial Policy Studies, Oct. 30)

November

- Presidential Award for Small-and Medium-Sized Enterprises (SMEs) Financial Support (Korean Small and Medium Business Association, Nov. 25)

December

- Superior Ethical Management Firm in workplace and customers category (The Institute for Industrial Policy Studies, Korean Ministry of Commerce, Industry and Energy, Dec. 18)

2·0·0·4

January

- 5th among Korea's top 100 brands 2003 (Korea Economic Daily, Brand Stock, Jan. 17)
- Best IR Website in the Asian/Pacific/African Region (MZ Consult, Jan. 22)

Letter to the Stakeholders

KB's Action Plans in 2004

All of us at KB are ready to strive for a strong turnaround in 2004, overriding the disappointing performance of last year. Our top priority is to restore our profitability, proving that we are ready to leap forward once again. We will also pursue stable growth, and at the same time strengthen our profit-oriented management capabilities to the level of global standards. In particular, we have set forth the following action plans to achieve our goals.

First: Further Improve Risk Management and Asset Quality

We will fine tune the risk management infrastructure we reinforced in 2003. KB implemented RAPS (Risk Adjusted Pricing System) in our Corporate Banking Group and installed the Comprehensive Monitoring System to cover all retail and corporate portfolios. We will also continue to emphasize asset quality improvement, make preparations for BASEL II implementation, apply the Comprehensive Monitoring System to our credit card portfolios, and reinforce the functionality of Early Warning System to detect potential delinquencies. We are all aware that asset quality is the key word for our turn-around in 2004.

Second: Broaden Fee Business as a Stable Source of Income

As a financial institution with the largest branch network and information infrastructure in Korea, we hope to increase our commission-based income to the level of global financial services companies, and secure a solid revenue structure that will be less vulnerable to economic downturns or market fluctuations. In 2004, we will continue to focus on bancassurance, mobile banking, and private banking, which will bring us high fee income as we move forward.

Third: Continue on with a Performance-based Culture

Motivated and achievement-oriented employees are essential to reaching our goals. We continue to instill a performance-based culture across all of KB's chain of operations. Our goal is to make our organization more dynamic and our personnel more professional. Transparent and rational scoring methods for evaluations, a reward system based on merit, and a clear Career Development Program (CDP) will enable us to assign, transfer and promote our employees to the positions where they will be most effective. We believe that maximizing our potential hinges on our employees reaching their own full potential, and our role will be to create a corporate culture that fosters our employees professional development.

|| Snapshots in 2003 ||

January

- 10th** Established Council for the Selection of Candidates for Non-executive Directors
- 29th** Distributed "20 Years of Age: It's the Time to Get Familiar with Money," a written financial guide for young people

February

- 6th** Announced a 20% cash dividend of par value for the fiscal year 2002
- 17th** Signed a business agreement with French-based Coface for credit information consulting

March

- 13th** Opened a representative office in Guangzhou, China
- 21st** Held the General Shareholders' Meeting for the fiscal year 2002

May

- 26th** Started selling ABS bonds through bank counters for the first time in banking history

June

- 12th** KB was included in the S&P Asian 50 index

July

- 21st** Introduced 'KB Video Consultation System' to enhance our sales capabilities

August

- 1st** Launched real estate management trust business
- 7th** Acquired International Information Security Standard ISO17799 (International Standardization Organization for 17799)/BS7799 (British Standard 7799) for Internet Banking

Fourth: Build KB's Reputation as a Socially Responsible Bank

To become a truly global personal financial services provider, we must establish our identity not only in terms of our size and financial performance, but also in terms of our social responsibilities, promotion of ethical management, corporate philanthropy and various social contributions. By building a reputation based on our corporate citizenship, the KB brand will stand strong as one that cares about the people and communities we serve.

KB's Vision & Determination

Our mid-term target of building KB into one of the world's top 30 leading financial institutions is within sight, and our "Multi-Specialist Strategy" is bringing it within reach. We have solidified our business operations and we are enhancing value by pursuing our "STAR" management philosophy. Accordingly, our management targets for 2005 are: US\$ 25 billion market capitalization, ROA of 1.5%, and ROE of 25%. With a clear determination, and by diversifying our business activities and constantly upgrading our working process for greater efficiency, we are confident KB will establish a leading position in the financial market.

We are beginning the year 2004 as a completely privatized bank and that brings a sense of new responsibilities. The market and investors will be watching us with additional scrutiny, and we are certain that as we faithfully fulfill our responsibility and adhere to our code of ethics, this added scrutiny will result in increased confidence in KB and our corporate value.

The difficulties of 2003 required KB to improve, innovate and restore our foundations, to achieve better results in 2004. Change and hardship create growth, and we will continue to implement changes and apply our learning to promote an ethos of innovation to build a stronger KB.

Thank you for your continued support.

Sincerely,



Jung Tae Kim
President & CEO

September

- 1st** Launched Korea's first chip-based mobile banking service, enabling users to access KB networks via a mobile phone with LG Telecom
- 3rd** Launched bancassurance business
- 19th** Acquired ISO9001 certification related to trustee & custody service
- 30th** Merged with Kookmin Credit Card

October

- 1st** Launched a single brand 'KB Card' to commemorate the integration of Kookmin Credit Card and KB's internal BC Credit Card operations
- Launched 'KB Apartment Market Price' Service
- 6th** Acquired ISO9001 certification related to Call Center & Loan Supporting Division

December

- 16th** Completed the acquisition of 51% stake in Bank Internasional Indonesia (BII) through Sorak Financial Holdings Consortium, in which KB holds a 25% stake
- 17th** Fully privatized following the Korean government's disposition of its stake in KB

Management Philosophy



Shareholder Value Maximization

KB is always committed to maximizing our shareholder value by protecting shareholder interest through exemplary corporate governance and realizing high relative market value.

Transparency & Accountability

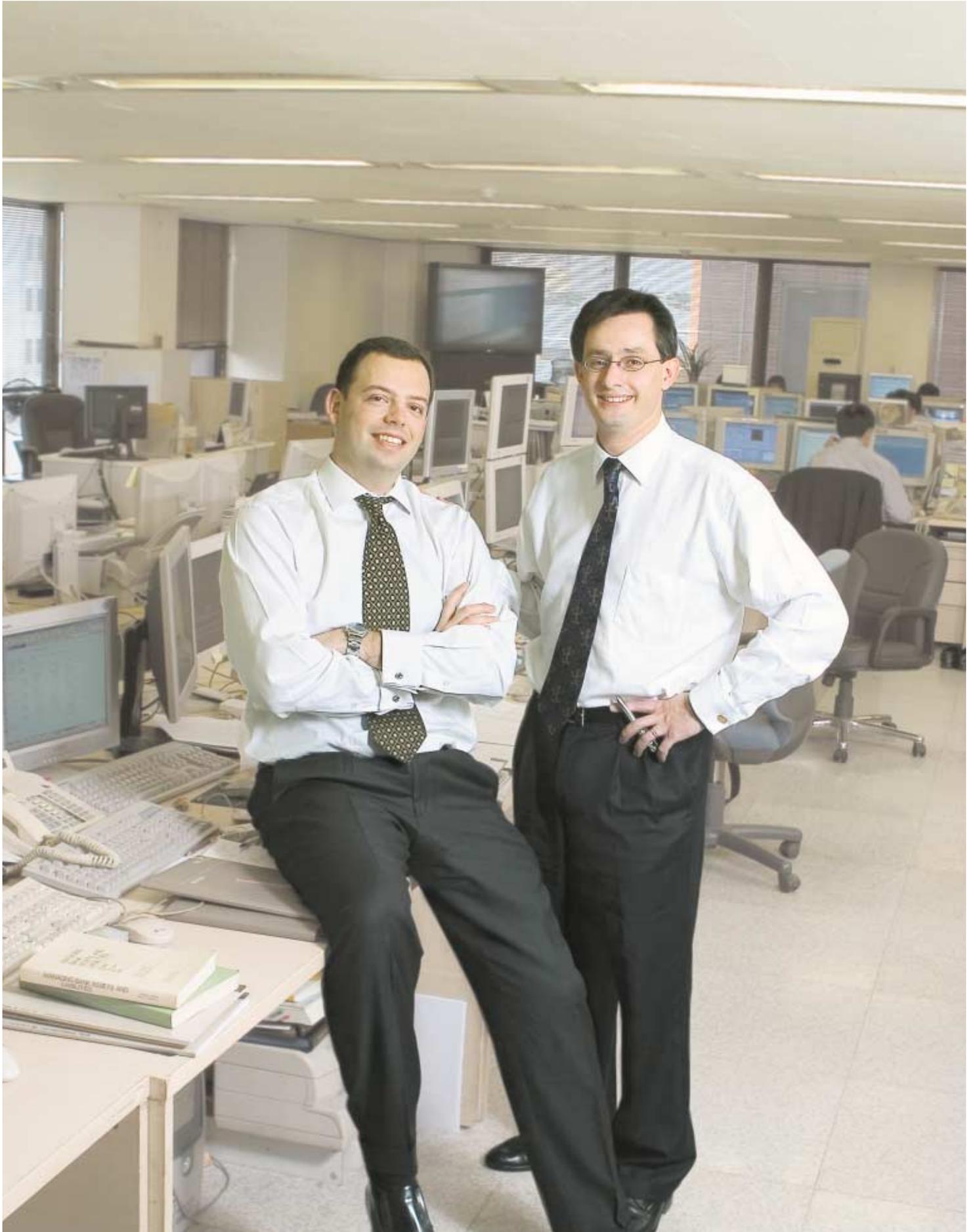
Based on our belief that good decisions are well-informed decisions, KB strives to become a role model in corporate transparency and accountability.

Ascending Customer Satisfaction

Our customers inspire our future. KB's customer-oriented approach to business is about providing convenience, customization and competitive edge for our customers.

Rewards Based on Performance

KB challenges employees to excel through a performance-based, task-oriented corporate culture, with awards bestowed by virtue of performance to help them develop into world-class employees.



Shareholder Value Maximization

SUSTAINABLE AND STABLE PROFITABILITY

Protecting shareholder interest through exemplary corporate governance

Our goal is to operate an exemplary corporate governance structure and function—driven by the spirit of challenge and debate, and bounded by a common goal for protecting shareholder interest. Accordingly, 11 of our 15 Board members, or 73% of our Board is independent. And to ensure greater independence, neither the Chairman, nor President & CEO leads any of our six committees, and our Chairman is an independent member.

KB Board members possess a wide range of expertise and experience in various fields, and collectively help push KB forward to our visionary position, while enhancing the shareholder interest along the way. Shareholders' Bulletin Board on our website is also available so that we can post information for, and seek opinions of, our shareholders.

In recognition of our efforts, both Asia Corporate Governance Institution and CLSA picked KB for top ten companies in Asia for

corporate governance. In addition, The Federation of Korean Industries selected us as a Model Ethical Management Company, The Asian Banker chose us for exemplary corporate governance for two consecutive years, and The Asset awarded KB for Best Bank for Corporate Governance in Korea.

Realizing KB's relative market value

We believe the key to realizing our relative market value is to align KB interests with those of our shareholders; hence, we aim to create sustainable and stable profitability, improve transparency, and perform with accountability to reach our visionary position as a world-class personal financial services provider. While being committed to further developing our growth dynamics and customer satisfaction, we also strive to narrow the relative market-value gap through non-financial performance measurements. Accordingly, for the past three years, we have actively relied on our value management principles found in Ethical Management, Code of Ethics, and Corporate Governance to protect the KB brand, reputation and credibility.



Transparency & Accountability

INFORMATION INTEGRITY AND CREDIBILITY

A good decision is a well-informed decision

As the largest financial services company in Korea, we represent our industry to the public—and we accept that duty with pride and commitment. As the developments in transparency and accountability become more meaningful to the public, KB aspires to build credibility to the information we share with the public, and adopt measures to prevent improper actions that could compromise information integrity.

At KB, we embrace the commonly accepted belief that a good decision is a well-informed decision, and that transparency means sharing information that is accurate, clear, and relevant. We also support the idea that the public should have easy access to transparent information. The members of our senior management and the Board have proposed and adopted a number of measures that are designed to build integrity to the information that management and the Board rely on to direct our business, and the public depends on to make important decisions. Among the measures are:

- CEO and CFO provide personal certification on Form 20-F filed with the U.S. SEC;
- KB abides by both the Korean FSS and the U.S. SEC regulations;
- Disclosure Committee screens all major developments for confirmation by our CEO and CFO;

- KB's advanced computer model aids information expediency by converting Korean GAAP numbers into US GAAP numbers;
- KB's whistle-blower protection program instated in 2001 encourages anyone at KB or affiliate to report misconducts without any repercussions; and,
- Ethical Management Program provides guidelines on accounting transparency and cleaner reporting of investments and business activities

Moving towards global best transparency and disclosure

Our objective for these measures is to stamp out misconducts or to better control them before they become bigger problems. As we continue to add and improve our measures, KB aims for greater transparency, wider-and more-timelier disclosure, and stricter accountability for employee behaviors. While we still have more to accomplish in building global best transparency and disclosure, our efforts to make a difference were noted: Asiamoney chose KB as the Best IR Company for four straight years, Reuters picked KB as the Best IR Firm in the Asian Financial Industry, and MZ Consult chose KB for Best IR Website in the Asian/Pacific/African Region.



Ascending Customer Satisfaction

INSPIRATION FOR OUR FUTURE

Maintaining the 3Cs in customer satisfaction

The largest customer base with over 24 million has been the key driving engine for KB's success. Now we are obliged to our largest-and-still growing number of customers who propelled our growth in the past, and inspire our future as we enter the global financial world as a representative bank of Korea. KB's goal in customer satisfaction is to continue to provide customers with the absolute best products and services.

Our customer-oriented approach is based on maintaining the 3Cs in customer satisfaction: *Convenience, Customization and Competitive Edge*.

Convenience in banking transactions: KB customers deserve it

Our newly launched, KB mobile banking is the most innovative service ever, allowing customers to conduct financial transactions online "anywhere and anytime"—as in the true sense of the word, "convenience." KB's mobile banking delivers a similar level of service as our Internet banking, but also boasts specialized functions like CD card and public transportation pass.

And we know convenience is also about reducing customers' wait time; hence, we developed new ATMs that are solely for customers to settle their utility bills, and advanced ATMs with improved functions that allow simple teller transactions such as deposits, withdrawals, and wire transfers in a more efficient manner. In addition, our call centers are always ready to address our customers' questions or concerns as swiftly as possible. *The growing level of convenience that we offer to our customers is one area among many where we shine.*

Customized products and services: KB is all about customer choice

KB provides a wide range of tailored products and services for our customers. In 2003, we introduced a full line of new products for our customers varying from traditional banking products like KB Leaders Savings to innovative investment trust products like ELS (Equity-Linked Securities). For customers who wish to pursue higher returns with higher risk, KB launched newly customized emerging market investment funds, such as the BRICs (Brazil, Russia, India and China) fund. In addition, for those customers that look for high return with their investment principal protected, KB developed index-linked trust products with embedded option features. *Giving our customers as many choices as possible has always been a major focus at KB.*

Competitive edge in a fast-paced environment: a shining star in the minds of our customers

In order to keep abreast of developments in the fast-paced financial landscape, maintaining competitive edge remains a major goal at KB. We strive to develop our brand image as one that is customer focused and driven, maintaining customer loyalty through our accumulated know-how, enhanced risk management capabilities, and through continuous innovations in all our business product lines. Our product competitiveness is maintained through close monitoring of market environment, analyzing the product features of competitors and responding to customers' changing demands. *When customers think KB, we want them to recall that we are the shining star in the financial world.*



Rewards Based on Performance

RESULTS MATTER

Equal opportunity for employees of all backgrounds

Helping to remove cultural barriers that prevent minority groups from developing their full potential

KB promotes equal opportunity based on performance, regardless of gender, former association, or any other discriminatory factors. We encourage all employees to participate in KB's decision-making process, and contribute to our endeavors with their unique insights and experience. To edge along employee involvement, we created Idea Board, which adds value to managerial decisions. The accomplished members come from various divisions and are nominated by their division heads. As for removing discriminatory factors, one of our human-resources goals is to further such efforts by changing a work environment that is culturally dominated by men. While KB will continue to base our human-resources decisions on performance, we will also help eliminate cultural barriers that have kept women from managerial positions. KB is a firm believer that the best ideas and work come from diversity and challenge, not conformity and cohesiveness.

KB Model Employee Award

The KB Model Employee Award was established in January 2002, to honor exemplary employees who have played a leading role in maximizing their contributions through personal developments, or in immensely upgrading KB's image. The award is bestowed in categories, such as consistent high performance, creativity in products and services, improvement in work process, contribution to integration efforts and other superior results that upgrade KB's brand. A total of 243 employees and 11 branches or groups had received this award by the end of 2003. Our management and KB Model Employee Award Selection Committee choose awardees

based on nomination reviews. The awards provide priority for promotion and training, thereby creating a healthy competitive environment that nurtures achievements.

Performance evaluation based on rational assessment as opposed to subjective opinions

Our performance evaluation model comprises of Key Performance Index (KPI), in which the underlying assessment is quantitative, scientific and objective. Distinct from the previous evaluation system that relied on a reviewer's subjective opinions, the KPI model measures an employee's performance and capability by grade and job category, and focuses on connecting performance targets with achievements. We will continuously channel our energies into building performance measurement tools that encourage results, better recognize employee contributions, and highly motivate employees to achieve.

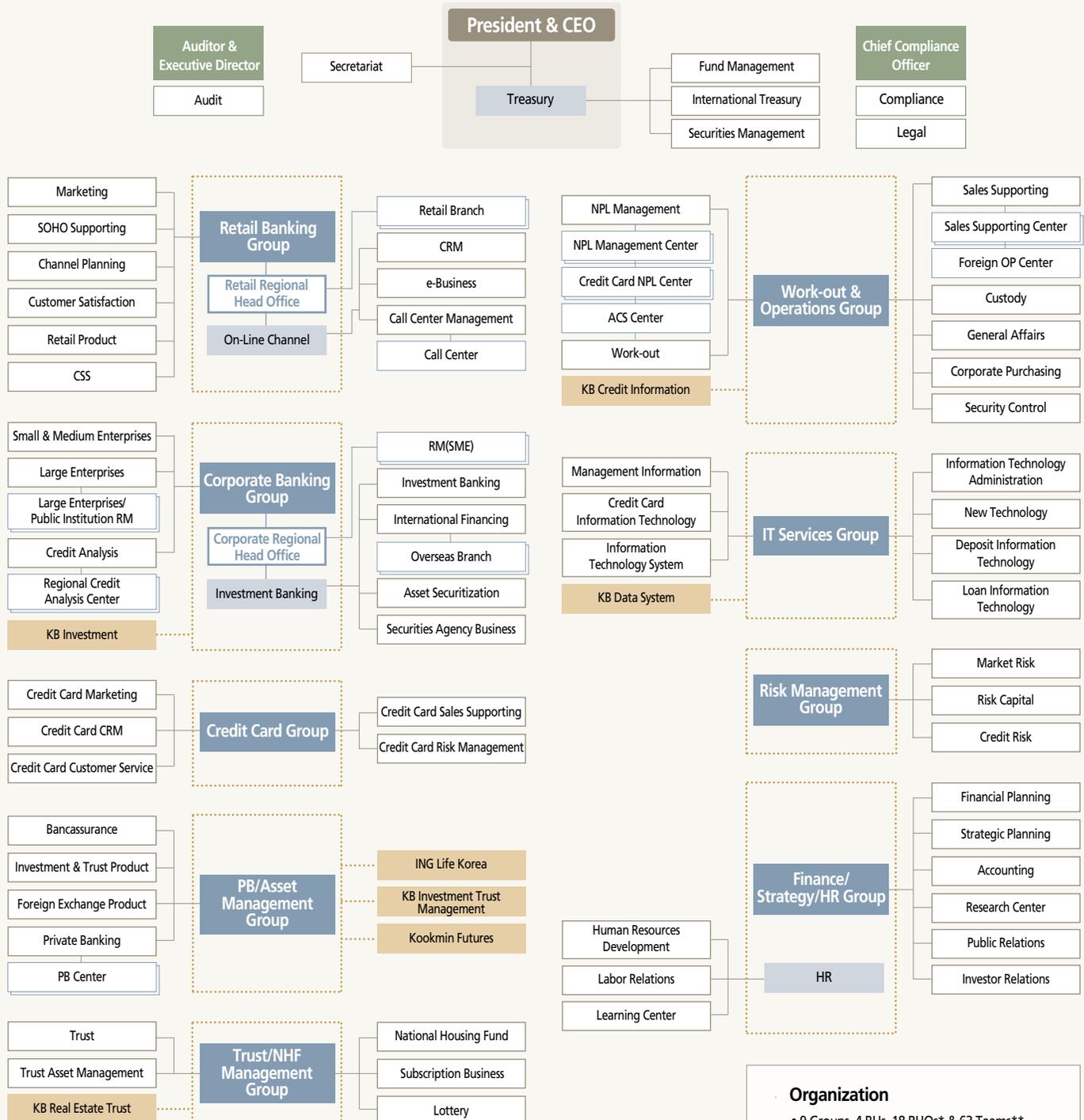
Enhancing employees' core capabilities

Employee training is one of our key drivers for KB performance. In 2003, we offered a variety of training programs in four major categories: change-oriented leaders who develop high-performance corporate culture; task-oriented programs that upgrade sales capabilities; specialized training to develop core expertise; and, other training programs as requested by employees. Our employees can also apply and receive approval for various types of educational programs, including overseas MBA, graduate and undergraduate education to further broaden their knowledge. To encourage self-development, we help employees formulate a training road map (TRM) to allow for accountability in their own career development.

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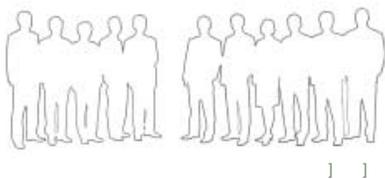
Organization Structure



Organization

- 9 Groups, 4 BUs, 18 RHOs* & 63 Teams**
- * Regional Head Office: Retail(16), Corporate(2)
- ** including Research Center & Learning Center

Senior Management



1) Jung Young Kang

Senior Executive Vice President
Trust/NHF Management Group

2) Sang Jin Lee

Senior Executive Vice President
Credit Card Group

3) Ki Sup Shin

Senior Executive Vice President
Finance/Strategy/HR Group

4) Seong Kyu Lee

Director & Senior Executive Vice President
Work-out & Operations Group

5) Jung Tae Kim

President & CEO



6) Yun Keun Jung
Senior Executive Vice President
PB/Asset Management Group

7) Young Il Kim
Senior Executive Vice President
IT Services Group

8) Sung Nam Lee
Auditor & Executive Director

9) Jong Kyoo Yoon
Senior Executive Vice President
Retail Banking Group

10) Jeung Lak Lee
Senior Executive Vice President
Corporate Banking Group

11) Donald H. MacKenzie
Director & Senior Executive Vice President
Risk Management Group

Ethical Management

▣ Ethical Management
is integral to our business.

Background

In an era of continuing political reform, and with a public wary of collusive corporate behavior, it is now more important than ever for financial institutions to develop trust through transparent and ethical management. KB's strict ethical standards guide our decision-making process and mold our corporate culture. To encourage our employees to adhere to the highest level of ethics, our CEO has repeatedly stressed that ethical management at KB is an integral part of our business.

History

KB's ethical management program has improved dramatically since our employees swore an oath to comply with a code of ethics six weeks after the new KB was established in November 2001. A whistle-blower protection policy that encourages those affiliated with KB to come forward to eradicate illicit practices was adopted in 2001 along with new policies on transparent accounting, self-evaluation, cleaner reporting of investments, and greater integrity.

The year 2003 continued building on those precedents of sweeping change by hinging performance ratings on ethical criteria in May and giving credit privileges to like-minded businesses. On September 5, KB was selected as a model for ethical management practices by the Federation of Korean Industries.

KB Code of Ethics

KB's unwavering guidelines obligate our representatives to act in accordance with the highest standards of personal and professional integrity in all aspects of their activities, and to comply fully with national laws, regulations and corporate policies. Compromising that integrity, either for personal or KB's benefit, cannot be justified under any circumstances.

The Code of Ethics applies to all KB representatives, including directors, employees, temporary workers, independent contractors, and consultants. It should be read and applied in conjunction with the policies of an employee's particular business unit.

The followings are excerpts from the KB Code of Ethics.

Preamble

We shall endeavor to make KB a "World Class Financial Services Provider," characterized by honesty and trustworthiness.

We shall achieve this goal through fair and transparent management, and continuously enhance corporate values, molding KB to grow and develop with customers and shareholders.

We shall endeavor to use the "KB Code of Ethics" as a guide for making judgments that are high in value and open in process.

Chapter 01 Fundamental Principles

1. We shall exercise the highest standard of judgment in the manner that maximizes customer satisfaction and shareholder value.
2. We shall ensure that all personnel adhere to the established ethical values in pursuance of KB's vision and policies.
3. We shall establish a healthy financial order and pursue mutual prosperity with interested parties in a spirit of free and fair competition.
4. We shall contribute to the development of the state and local communities, ever conscious of our social obligations as a corporate citizen.

Chapter 02 KB Management

1. Maximization of shareholder value
KB remains fully accountable to shareholders. Our officers and employees will provide them with stable, long-term profits through rational, just decisions and transparent management.

2. Customer satisfaction

We shall always tackle issues from the perspective of what our customers require and do our utmost to achieve total customer satisfaction by providing the highest quality products and services.

3. Enhancement of KB officers' and employees' quality of life

We respect the autonomy and creativity of our officers and employees. We are committed to encouraging them to tap their full potential in a corporate culture that is based on the principles of merit and equality of opportunity.

Chapter 03 Social Responsibility of KB

1. Compliance with laws and regulations

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

2. Contribution to social growth

We shall contribute to social growth and development by participating in social service activities that enrich our society, and be there to lend a hand when disaster strikes.

Chapter 04 Work Ethics for Officers and Employees

1. General requirements

We consider honesty and trustworthiness to be our two cardinal virtues. We are tasked with pursuing individual growth as well as our development continuous self-improvement and by properly implementing our business.

2. Proper conduct of business

We shall refrain from involving our officers and employees in any action that might hinder the proper conduct of our business.

3. Conflict of interest

We shall protect our assets at all times, and when there is a conflict of interest, we shall protect KB's interest first, over any other interest.

4. Mutual respect

We shall respect each other based on common goals while developing an effective communication network and cooperating in business for the betterment of KB.

5. Management of information

We shall safeguard and manage information pertaining to KB in a manner consistent with our other vital assets.

Ethical Management Programs in Action

Ethical Guidelines

KB established and practices a total of eight ethical guidelines. These include: 1) prohibitions outlawing the acceptance of bribery and gifts; 2) a set of standards and procedures governing external activities; 3) provisions governing investment activities; 4) an integrity contract policy for greater transparency; 5) guidelines in case of conflict of interest; 6) guidelines for how to manage customer and corporate information; 7) guidelines for Internet use; and 8) money laundering prohibitions.

When the guidelines relating to bribery and unlawful gifts were established, concerned groups and employees sought interpretation and understanding. KB responded immediately and directed employees to return gifts or questionable donations to the contributors or, when that was not possible, gifted them to other social organizations. By actively practicing the set guidelines, KB has been able to send a clear message about gift acceptance and reinforce an environment in which everyone understands and values KB's commitment to business ethics.

Whistle-Blower Protection Program

KB established a set of "Whistle-Blower Protection Program Operation Guidelines" to prevent misconducts, deal with misconducts in progress, and protect the informers. Activities that fall into this policy include: 1) those that run counter to the Code of Ethics; or 2) Internal Control Guidelines and the Korean law; 3) activities resulting in disadvantages to KB either intentionally or coincidentally, wrongful discharge of KB duty and improper instruction from superiors and sexual misconducts, among others.

Ethical Management

KB has not only established a series of ethical management programs but we have also developed a variety of programs associated with customers.

Reflect Ethical Management in Performance Rating Scores

If a KB employee attempts to process his or her work in an unethical manner to increase his or her performance, KB will deduct 10% of total KPI (Key Performance Index) scores. Thus, how employees conduct themselves ethically can have a dramatic impact on the final evaluation results. This program associates promotion and success with moral strength and encourages them to work in a just and transparent manner.

Self-Evaluation

A self-evaluation check list appears on employees' and officers' computer screens twice a week to remind them of their adherence to KB's ethical management.

Educational Programs

Educational programs are provided to officers and employees to enhance awareness of corporate ethics and form a consensual opinion on ethical management. Long-standing employees, new employees and compliance staff are educated in a varied but consistent manner that follows the same line of thought via KB's training academy group and regional office group education, private study and other ad-hoc programs. In 2003, KB educated a total of 6,005 employees on 44 occasions by running 11 courses, while in 2002 the numbers tallied at 5,712 employees on 34 occasions through 15 courses.

For all of our in-house training programs held at the training center, KB always incorporates ethics/compliance topics. We also send educational materials once a month to divisions and branches so that employees keep well informed about ethical management. KB also offers training twice a year for our compliance staff separately. In addition, KB is striving to uphold the spirit of ethical action for our employees by offering various events including training by ethics specialists and by co-hosting seminars with external organizations.

Ethical Management on KB Website

We disclose KB's ethical management principles and policies as well as our programs and activities on the website in both Korean and English, to publicly express our firm commitment to the highest standard of ethical management.

Surveys taken to evaluate ethics of KB employees

KB surveys our current ethical management practices and ideas for improvement, and uses the results to establish the optimum ethical management system for KB. Through such surveys, KB diagnoses employees' mindset toward our ethical management and their commitment, as well as finds better ways to improve the program.

Ethical Management with Customers

Preference Given to Corporate Customers Practicing Ethical Management in KB's Credit Rating Evaluation

KB initiated this program to encourage ethical management by offering preferential treatment to companies that demonstrate sound and consistent moral practices. By way of incentive, we offer them a more preferential interest rate and credit limit.

KB's new program gained much public attention after our CEO announced it in April 2003, and subsequently, it was included in the anti-corruption news files run by Transparency International Korea.

Audit Fee Subsidy for SME Customers Practicing Transparent Accounting

KB assists those SMEs that want to receive auditing service to enhance their transparency even though mandatory auditing is not required by law. KB grants ratings based on the auditing results and assists up to 70% of their auditing fees.

Accounting Courses for CEOs and executives of SMEs and Venture Companies

KB financially supported a total of 400 CEOs and executives of SMEs and venture companies who wished to take accounting courses organized by the Korea Federation of Banks. Through assistance, KB helped the CEOs and executives enhance corporate competitiveness by instilling them with a greater depth of accounting knowledge.

Integrity Contract Policy for Transparency

To prevent the unethical acceptance of money, gifts or inordinate entertainment expenses, all officers and employees are required to apply an “Integrity Contract” for construction projects and purchases of goods or services as of June 1, 2002. Over 8,000 contracts were faithfully made during 2003.

Social Contribution

KB embraces the mantle of “Corporate Citizen of the 21st Century” with enthusiasm and commitment. We strive to reinvest in society the same degree of support and trust that we have received from our customers, communities, and investors. Viewing our commitment to corporate citizenship as a natural extension of our business, we responded to the influx of additional 1 million new customers in 2003 with a fresh roadmap for social welfare.

The success of these social activities and contributions will become increasingly systemized as KB establishes itself as a leading financial services company in Korea. As our brand image grows in line with our policy of taking a personal interest in society’s well being, our social value will rise and public trust will rise and blossom.

In 2003, our employees gave of themselves in more ways than one. When they weren’t reaching into their pockets to help build an aggregate donation of KRW 6,778 million—the largest

contribution made in Korea’s financial arena, they were rolling up their shirt sleeves to engage in a diverse range of charitable activities to help people in need.

KB donated a relief fund of KRW 3,209 million for flood victims, KRW 878 million for the Development Fund of Seoul National University and KRW 600 million for the Seoul Credit Guarantee Foundation. We also made our share of contributions to other non-profit organizations: KRW 320 million to the National Association for Disaster Relief, KRW 206 million to the Korean Monetary Finance Association, KRW 100 million to Community Chest for Korea and KRW 1,465 million to other organizations for underprivileged members of society.

Educating the Next Generation

KB is also forging a role in educating the next generation by enhancing the financial literacy of both our customers and the wider community with an innovative blueprint for public financial education. Since launching “KB Financial Education Team,” a think tank of KB employees who work in collaboration with leading specialists to develop financial educational programs, KB has performed various activities to familiarize future consumers and mortgage-owners with the benefits and risks of making financial decisions. The first project to materialize from the collaboration was the “Kid Bank Program,” chosen after the team determined that financial success stems from an early grounding in responsible money management.

In 2003, KB extensively renovated the “Kid Bank” website and broadened its scope in terms of detail and explanation. Given Korea’s world-leading broadband Internet penetration rate, we believe that online education is likely to be the most expansive medium to deliver financial education programs that will furnish our children with greater opportunities in the future. We hope to substantiate the site with various economic and

“ We strive to reinvest in society the same degree of support and trust that we have received from our customers, communities, and investors.”

Ethical Management

From our stakeholders, we will gain faith by preventing misconducts through leading ethical and compliance practices, and by practicing socially responsible investment and management.

financial knowledge bases presented in an easily digestible and entertaining format. For easy navigation, it is divided into five categories: making money, increasing money, spending money, borrowing money, and sharing money.

In December, KB published a teaching resource in the form of a magazine entitled, “Know money, Know economics.” We styled the magazine in the form of a children’s comic book to give youngsters better access to economic and financial-related knowledge, thus reversing the negative public perception of these areas as highly complex subjects. CEO Kim highlighted the book’s focus on directing readers to use their money wisely and make the most sensible decisions regarding how they manage their funds.

Tasks Ahead

Although it is difficult to measure the financial benefits that accrue from faithfully practicing ethical management, we can improve the overall

efficiency by reducing risks and losses and eliminating misconducts through adopting more transparent and fair work processes. With higher standards supported by our Ethical Management, KB will be able to increase our employees’ level of comfort and motivate them by treading the right path and hiring and maintaining high-caliber employees.

From our stakeholders, we will gain faith by preventing misconducts through leading ethical and compliance practices, and by practicing socially responsible investment and management. Specifically, we will provide competitive products and services and uphold our brand value to attract loyal customers and long-term investors, and issue Sustainability Report, a publicly available periodical to disclose our activities by making quantitative measurements on the principle of ethics sustainability covering areas as diverse as society, the environment, human rights, and health and safety.

Risk Management

Overview

As a financial service provider, we are exposed to various risks related to our lending and trading businesses, our funding activities and our operating environment. Our goal in risk management is to ensure that we identify, measure, and monitor the various risks that arise, and that our organization adheres strictly to the policies and procedures, which we establish to address these risks. The principal risks to which we are exposed are credit risk, market risk, liquidity risk, and operational risk, and we strive to manage these risks within acceptable limits.

Risk Management Organization

We have established a multi-layered risk management governance structure. The highest decision making body is the Risk Management Committee, which provides the Board level direction to the bodies below it. At the operational level, the Risk Management Group works closely with other business groups to implement risk management strategies, policies, and procedures. The following chart provides an overview of our risk management system:

Risk Management Committee

The Risk Management Committee is a board level committee that is responsible for overseeing all risks of KB and advising the board of directors on risk management related issues. It has the CEO and seven non-executive directors as members, and its major roles include:

- establishing risk management strategies in accordance with the directives of the board of directors;
- determining KB's risk tolerance; and,
- reviewing the level of risks we are exposed to and the status of our risk management operations.

The Risk Management Committee convened meetings four times in 2003, at which time it passed resolutions to revise certain risk related regulations, set the Risk Appetite level for 2004, analyzed the governance structures related to risk management at other advanced banks and monitored resulting changes required within KB. The Committee also reviewed and provided input on the Risk Management Group's business plan for 2004, its BASEL II Master Plan, current and future operational risk management practices,



Risk Management

and ways to develop the current practice of bank wide stress testing.

Risk Management Council

The Risk Management Council is the executive decision making body for our risk management operations. It consists of 6 senior executive vice presidents and 1 executive vice president. Its responsibilities include:

- determining basic principles and major policies for risk management;
- creating and amending the regulations for risk management activities;
- setting economic capital limits for each business group;
- setting limits for each type of risk, and for integrated risk levels;
- reviewing the key decisions related to operational risk; and,
- performing any other duties delegated by the Risk Management Committee.

The Risk Management Council held nine meetings in 2003, during which it set the economic capital based risk limit twice (semiannually) and discussed various risk management related issues. The most significant of these involved making concrete plans to strengthen credit risk management and implementing action plans to improve asset quality. The Council also reviewed regular reports on the risk status of KB, analyzed current market risk management practices, and reviewed and approved a total exposure management plan by industry.

Risk Management Subcommittees

Our Risk Management Subcommittees execute the decisions made by the Risk Management Council and make operational decisions regarding risk management policies and procedures.

- The Credit Risk Management Subcommittee allocates credit risk limits, approves the criteria to set total exposure limits, which are

implemented by our business groups, and resolves certain working level issues relating to credit risk management. In particular, the Credit Risk Management Subcommittee has the power to temporarily allow our business groups to exceed total exposure limits in certain exceptional circumstances. It is composed of eight members, including the Chief Risk Officer and two general managers from the Risk Management Group and five general managers from other relevant teams.

- The Market Risk Management Subcommittee sets market risk related limits, determines which derivative instruments we can trade, and resolves certain working level issues relating to market risk management. In particular, the Market Risk Management Subcommittee sets the Value at Risk (VaR) limit for our fixed income, equity, foreign exchange and derivative portfolios. It is composed of nine members, including the Chief Risk Officer and three general managers from the Risk Management Group and five general managers from other relevant teams.

Risk Management Group

Our Risk Management Group is responsible for identifying, measuring, monitoring, and reporting on risks and for initiating actions that may be required by other groups within KB. The Chief Risk Officer is responsible for the Risk Management Group, and is a member of both the Management Council and the board of directors. The Risk Management Group is divided into three teams:

- Credit Risk Team. This team makes credit assessments and formulates our credit risk policy. It manages the overall credit risk inherent in our loan portfolios and controls bank wide asset quality. Furthermore, it analyzes industry and corporate groups and conducts credit review for various portfolios.
- Market Risk Team. This team measures, monitors, controls and reports on the status of

market risks including interest rate, foreign exchange, equity and derivative related risks. It also monitors and reports on the overall risk management profile with respect to each subsidiary to the management.

Risk Capital Team. This team manages our Risk Adjusted Return On Capital (RAROC) system, and is responsible for the regular reporting of RAROC, Economic Value Added (EVA), and Economic Capital (EC) at the bank wide level and by group or business unit. It is also responsible for the bank wide implementation of the new Basel capital accord (BASEL II), and operates our Comprehensive Monitoring System as well.

The three risk management teams act independently from our other business groups in KB in order to enhance the effectiveness of our risk management policies.

Risk Management Group - Major Achievements in 2003

In order to strengthen KB's overall risk management, the Risk Management Group initiated a number of fundamental changes in 2003, as follows:

Enhanced Management Decision Making

The Risk Management Group established an EC based business planning, monitoring and control framework to enhance risk based management of KB and to support efficient managerial decision making. Within this framework, the Risk Management Committee now sets our risk appetite based upon projected economic capital and available book capital, and the Risk Management Council sets the maximum amount of economic capital to be utilized by each of our business groups. The level of risk is then controlled and managed within that allocation. The Risk Management Group monitors the status of limit usage and reports the results to the Risk Management Council on a regular basis.

Also, we developed quarterly analysis and reporting of RAROC and EVA for each retail and corporate branch throughout the network. This provides management with a powerful tool in assessing the relative performance of each of our branches.

Furthermore, we introduced Risk Adjusted Pricing System (RAPS) to our Corporate Banking Group, including all of our corporate branches. RAPS is now leading the improvement of the risk-adjusted performance of the Corporate Banking Group, and supports our risk-based loan-pricing.

Risk Monitoring and Control

We refined our 'Total Exposure Limit Management System,' covering all exposures to large corporates, corporate groups and financial institutions, to give full consideration to a borrower's ability to repay. At present, we are working on an expansion of this system to include our trust accounts, ABS exposure, and exposures to our subsidiaries.

We also developed a powerful 'Comprehensive Monitoring System,' which presently covers our corporate and retail portfolios. This system is now in the process of being developed further to include our combined card portfolios.

To detect problems and prepare countermeasures at an early stage, we improved our Early Warning System (EWS) for corporate customers and also established a bank wide EWS that takes into consideration macroeconomic data, financial indicators, and risk-related factors. Additionally, we introduced an ongoing scenario analysis process for stress-testing purposes.

BASEL II Compliant Risk Management System

KB fully supports the proposed New Capital Accord or BASEL II, and it is clear that implementation will require significant effort on our part. KB has established a BASEL II Task Force Team (TFT) within the Risk Management

» In order to strengthen KB's overall risk management, the Risk Management Group initiated a number of fundamental changes.

Risk Management

▣▣ Credit risk management aims to improve asset quality and generate stable revenues while reducing risk through diversified and balanced loan portfolios.

Group to prepare for the implementation of the coming capital adequacy regulations on an IRB (Internal Rating Based Approach) and AMA (Advanced Measurement Approach) basis.

In May 2003, the BASEL II TFT established a concrete and detailed master plan for complying with BASEL II requirements, including:

- BASEL II compliant risk-reporting to Senior Management
- Developing rating templates for Large Corporates
- Pillar III reporting
- Operational risk
- Developing a consistent Loss Given Default (LGD) methodology and parameters across KB

· Bank wide Asset Quality TFT

In February 2003, KB established a bank wide Asset Quality TFT, comprised of representatives from relevant teams across KB. Members of the Asset Quality TFT consider issues related to bank wide asset quality, identify problems, determine what the appropriate solutions should be, and take these solutions to the respective business groups for immediate implementation.

The Asset Quality TFT also monitors our Substandard and Below Loans and compares the actual status versus targets on a weekly basis. Furthermore, we have established a Delinquency Management Help Desk within this TFT. Members of this help desk identify branches that are falling behind in terms of delinquencies using our Comprehensive Monitoring System, and work with our branch staff in developing relevant countermeasures.

Credit Risk Management *

Credit risk is the risk of loss in the event that a borrower or counterparty defaults. Credit risk management aims to improve asset quality and generate stable profits while reducing risk through diversified and balanced loan portfolios.

The creditworthiness of each type of borrower or counterparty is determined by credit experts or a credit rating system, and a credit limit is set for each borrower or counterparty.

All credit exposures, whether on or off the balance sheet, are assessed. These exposures include loans to borrowers and counterparties, investments in securities, letters of credit, bankers' acceptances, derivatives and commitments. Profiles of credit risk at a bank wide level and by business group, industry and account are measured and reported regularly to relevant business groups, senior management including the Risk Management Council, and the Risk Management Committee.

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

Furthermore, our RAPS system is used by our Corporate Banking Group to support pricing decisions by calculating EC, RAROC and EVA for each facility and by customer in our large corporate portfolio, and will gradually be applied to our much larger SME portfolio as well.

Credit risk management strategy for retail banking

For secured retail loans, we minimize our expected loss through use of our collateral system and up to date market information provided by a third party provider. For unsecured retail loans, applications are processed through a credit-scoring system, the results of which are used to decide appropriate loan amounts, pricing, and terms.

We use a separate scoring system for customers applying for credit cards, under which new

members' initial limits are granted by their credit standing. Following the merger of Kookmin Credit Card with KB, we introduced a more robust application scoring system in October 2003 to cover our combined credit card portfolio, and will introduce an upgraded behavioral scoring system in January 2004 which will be used to score customers based on their subsequent behavior. With these improved scoring systems in place, we are now better able to identify our good customers, and to minimize losses by detecting and reducing our exposure to potentially delinquent customers. These upgraded scoring systems are now being rigorously applied to all card customers without exception.

* Detailed figures and analysis on KB's loan portfolio, capital adequacy, and asset quality including delinquencies and provisions are contained in the 'Management's Discussion & Analysis' section. (page 67~70)

We are continuously refining our retail credit process and have recently initiated a comprehensive upgrade of entire credit process for the retail banking. We will further segment our retail portfolio and develop roughly ten application and behavioral score cards, respectively, to refine our credit strategy for initial limit setting and pricing, and ongoing customer management. As part of these changes we will also be establishing a more sophisticated Early Warning System that will give default detection signs at both the customer and the portfolio level.

Furthermore, we will be developing a comprehensive Customer Relationship Management system which will enable us to have one common view of all relationships we have with the customer, and will provide for real time customer updates. Importantly, it will allow us to better serve our customers, and at the same time enable us to better monitor and assess their credit standing.

Credit risk management strategy for corporate banking

We evaluate our corporate borrowers by using credit-rating systems, and approve corporate loans at different levels of our organization depending on the size and type of the loan, the credit risk level assessed by credit analysts in the Credit Risk Team (in the case of large corporates) or by the credit-rating system, whether the loan is secured by collateral and, if secured, the value of the collateral.

We use our collateral system to manage the liquidation value of the collateral we hold. We appraise the value of collateral when we make a loan, when the loan is due for renewal, and when any events occur that may change the value of the collateral.

Our business groups manage the day to day operations relating to loans after they have been approved and disbursed to the borrowers. A borrower will be reviewed by the Credit Risk Team if it is selected by our early warning system, or if our total exposure to that borrower exceeds a certain threshold, and as a result we may adjust the borrower's credit rating, our loan policy or asset quality classification. The credit review results are notified to the related business group, which is then responsible for taking remedial action, as appropriate.

Retail and corporate branches are responsible for the management of our short-term overdue loans. If problems with collection persist and the classification of a loan is reduced to substandard or below, it is transferred to one of our NPL Centers or our Work-Out Team where experts on loan collection manage the loans intensively, thereby maximizing the recovery rate.

Risk Management

▣ We manage our market risk at the portfolio level, and control our exposures by way of position limits.

Allowance for loan losses (As of December 31, 2003)

(KRW in billions, %)

	Retail		Credit Card	Corporate		Total		
	General	Housing		Large	SME			
Loan Balance	81,206	(42,882)	(38,324)	10,250	49,076	(7,372)	(41,704)	140,531
Allowance	1,353	(835)	(518)	1,188	1,149	(320)	(829)	3,690
Rate	1.67	(1.95)	(1.35)	11.59	2.34	(4.34)	(1.99)	2.63

Our allowance for loan losses has increased significantly in comparison to the preceding year, largely due to the deterioration of our credit card portfolio and to additional provisioning required in respect of LG Card.

the daily maximum potential loss in the current trading position from adverse market changes in equity prices, interest rates, and foreign exchange rates.

Market Risk Management

The principal market risk to which we are exposed is interest rate risk. To a much lesser extent, we are also exposed to risk in the equity markets and foreign exchange markets, and risk in our derivative positions. We manage our

In terms of market risk, the most significant event in 2003 impacting the Korean financial markets was the SK Networks scandal in March, which caused interest rates to move sharply higher. The equity markets were little affected since they were already at lows for the year. The 3 year KTB increased by 51 basis points to 5.20% and the AAA-Corporate rate increased by 60 basis

KB's Portfolios for Trading Account

(KRW in billions)

Classification	As of the end of 2003			From Jan. 2003 to Dec. 2003	
	Position	VaR	VaR Ratio	Maximum	Minimum
Equity	145.2	4.50	3.10%	4.97	2.51
Bond	4,620.6	6.80	0.15%	19.04	2.63
FX	(19.6)	0.04	0.20%	1.43	0.02
Derivatives	-	1.60	-	6.25	1.36
Total	4,746.2	6.50	0.14%	23.16	2.81

VaR Ratio = VaR / Market Value

market risk at the portfolio level, and control our exposures by way of position limits, VaR limits, and stop loss limits approved by the Risk Management Council and the Market Risk Management Subcommittee.

As of the end of December 2003, the daily VaR of KB's trading position, with a confidence level of 99%, was KRW 6.5 billion, which represents

points to 5.69%, giving rise to a temporary unrealized loss of KRW 31 billion in our bond trading portfolio. Interest rate volatility rose by almost four times, resulting in sharp increase in our VaR from KRW 5 billion to KRW 19 billion for the bond trading portfolio. It took two weeks for the fixed income markets to return to their previous levels, and for KB's bond trading portfolio to recover its losses.

Operational Risk Management

BASEL II currently defines operational risk as the “Risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.” However, there is still no complete consensus on the definition of operational risk in the banking industry. KB defines operational risk as risks related to overall business and supporting activities other than credit risk, market risk, interest rate risk and liquidity risk. Within this definition, we plan to manage not only the direct risk of loss but also indirect risks of loss such as “reputation” risk.

KB is now at the preliminary stage of establishing a broad based operational risk management framework. At the beginning of 2003, KB developed a multi-year plan composed of a Preparatory Phase (running to the end of 2003), Phase I (“Framework building” by the end of Sep. 2004), and Phase II (“Implementation and Stabilization” by the end of 2006).

We have an independent Operational Risk Unit within the Risk Management Group. Our Operational Risk Unit will refine bank wide operational policies & procedures, manage internal and external loss data, measure operational risk, provide appropriate training and support to business line operational risk managers, and report overall operational risk status to the management. In addition, this unit has appointed one qualified manager in each head office team as an operational risk manager, and assigned to these managers the primary responsibility of managing the operational risk within their areas of responsibility. With this network of operational risk managers, we completed our initial Control Self Assessment (CSA) covering roughly 2,400 risk profiles which have been documented and are now being monitored on a regular basis. An IT system has

been developed to allow business line operational risk managers to make inquiries, update and modify our CSA matrix, with the cooperation of our Operational Risk Unit.

In 2004, we will enter into Phase I, focusing on building the framework through an upgrade of our CSA, identification of Key Risk Indicators, internal & external loss data management, and initial measurement of Operational VaR.

Key Growth Business in 2003

KB strove to initiate and further develop innovative products and services that will bring us growth opportunities moving forward.

Overview

In 2003, we strove to increase our profitability by initiating and further developing innovative products and services that define the future of banking: private banking (PB), mobile banking, and bancassurance. These three key businesses will represent KB's growth opportunities moving forward.

Under the "Gold & Wise" PB brand, we offer superior financial planning and asset management targeted to a high net worth customer segment. The three core strategies of "Gold & Wise" are to provide private banking services exclusively by top level personnel, to tailor asset management by implementing customized IT solutions, and to enforce strict guidelines for product offerings through our Fund Selection Committee, were repaid with a successful expansion of PB centers in 2003. This growth will be accelerated in 2004 with expansion to new affluent neighborhoods in the Seoul Metropolitan area.

KB's mobile banking service is uniquely flexible and convenient. Our innovative chip-based mobile banking provides greater security, faster processing and a wider range of banking services than was previously available. The soaring popularity of this service was demonstrated in 2003 by growing sales for KB mobile handsets and increased network traffic. In 2004, new network alliances with telecommunications companies, improved efficiency through technology upgrades, and new services better tailored to our customers' needs will add a new chapter to this success story.

KB's entrance into the bancassurance business, after government deregulation opened the market, enabled us to broaden our customer base and diversify revenue sources in 2003. Our bancassurance products achieved one of the highest commission income sources of all KB's

product offerings, spurring a goal of increased sales in 2004. With further deregulation to arrive in 2005, the next year will see plans put in place for new insurance product offerings and an improved IT infrastructure, ensuring KB's leadership in this new and growing market.

Many strategic decisions we made during 2003 were clearly aimed at realizing our goal to become a world-class personal financial services provider. Going forward, we are confident the plans, people, and products are in place to enable KB to become one of the world's leading financial institutions.

Private Banking

Gold & Wise; Trustworthiness, prudence and excellence in accumulating wealth.

November 21, 2003 marked the first anniversary of KB's Private Banking (PB) brand, 'Gold & Wise.' Spurred by the success of the Apgujeong PB Center, a total of eight PB centers were operating at full swing as of the end of 2003. During the first half of 2004, KB plans to expand the PB business into other affluent neighborhoods such as Daechi-dong, Bangbae-dong and Mok-dong in Seoul.

'Gold & Wise' aims to establish KB as a leader in the private banking business by incorporating elements of European and American PB systems, and through our motto 'Private Banking for the Wise,' which implies trustworthiness, prudence and excellence. Gold & Wise product offering currently focuses on those who have liquid assets over KRW 300 million (USD 250,000 ~) through our effective customer relationship management. This customer base usually invests their assets with long-term perspective by using various kinds of investment alternatives. We do not only sell our products to customers, but also offer comprehensive financial planning and stable asset management that are intrinsic value of private banking.

Three Core Capabilities of Gold & Wise

To maintain the fundamental image of private banking as a personal and secure activity, Gold & Wise has established three core capabilities:

First, we prioritize superior human power and continuing education as being integral to our competitiveness. We select top-notch personnel through open competition and rigorous process, while bringing in experts from global financial institutions. Our employees not only actively sell our products and services they also secure their own competitive edge through KB's various training programs and their own motivation and ambition. By encouraging and supporting participation at seminars and conferences, KB provides employees with a chance to share and learn with colleagues from other international financial institutions.

Second, we develop and maintain customized private banking IT solutions that are based on advanced European technology. These IT solutions allow us to tailor investment asset portfolios to customers' current needs and to adjust the portfolios quickly in light of changes in the financial environment. The system's flexibility and advanced technologies enable us to make complex calculations rapidly and accurately, for example, finding the optimal way to increase initial investment of KRW 500 million to reach KRW 1 billion within three years.

Third, we select our products based on strict guidelines. All the products handled in our Gold & Wise PB centers are meticulously examined by the Fund Selection Committee. The Committee periodically holds "due diligence" meetings with fund-operating companies and evaluates them in terms of performance, ethics and several other categories. If any abnormalities are identified, we promptly notify our customers and take appropriate measures to rectify the situation.

Other factors that help Gold & Wise maintain the highest quality include a wide range of services from our tax accountants, real estate specialists and lawyers, who collectively manage our customers' total assets. In addition, confidential consultation rooms as well as transparent and reliable work processes symbolize how seriously Gold & Wise takes the privacy of our customers' personal information and assets. All of our strengths are geared toward our fundamental vision of 'Fostering long-term relationships with our customers.' With our accumulated know-how, the Gold & Wise brand will continue to enhance KB's overall business performance.

Mobile Banking Service

Better Convenience, Efficiency, and Security

Under a motto of "Bank in Our Hands," KB opened a new financial era by successfully launching our mobile banking service for the first time in the industry. Using their own mobile phones, KB customers can now perform banking transactions including inquiries and fund transfers by mounting a banking IC smart chip on their mobile phones. KB issues a banking chip codified with each individual's financial information so that each of our customers can enjoy the convenience brought by a variety of banking transactions available anytime and anywhere.

KB offers three kinds of mobile banking services: online services that include inter-bank account transfers, deposit inquiries, deposit payments, loan inquiries and repayments, cashier's check inquires, utility bill inquires and payments; offline services such as cash withdrawals through ATMs and credit card settlements (to be introduced); and other services such as public transportation payments (also using a banking chip) and international fund transfers.

Key Growth Business in 2003

Under a motto of "Bank in Our Hands," KB opened a new financial era by successfully launching our mobile banking service for the first time in the banking history.

What sets KB's mobile banking service apart

KB's new-concept mobile service, called, "chip-based mobile banking," is unique amongst existing "WAP-based mobile banking services," by providing greater convenience, economic efficiency, quicker processing time, and enhanced security. The following table outlines how KB's mobile banking service differs from other mobile banking services.

The above table explains why demand for KB mobile handsets has been steadily increasing with a total of 280,075 sets sold by the end of 2003. Soaring popularity for the service saw its usage culminate to 3,646,975 by the end of the year. Inquiries represented three times the total number of transfers.

A closer look at the transaction volumes from September to December 2003 shows that while demand for KB's mobile banking service was equivalent to 3-4% of KB's Internet banking transactions, it accounted for 93% (360,000 out of 387,000) of transfers negotiated by all the mobile channels in the banking industry. Customers' dependence on KB mobile transactions rose beyond expectations in that period, with inquiries growing from 16% to 51% and demand for transfers shooting up from 62% to 93%.

Looking to the future, we are expanding our network of alliances to incorporate other telecommunications companies and further entrench KB mobile banking in customers' minds as a premier solution provider to their

banking needs. In line with this strategy, we will also form partnerships to promote sales of mobile handsets through all KB branches, which will minimize any inconvenience for our customers and provide opportunities to explain the merits of the service and sell on-the-spot site subscriptions.

We will continue to develop new services and upgrade existing ones to better serve our customers' needs. For example, we will gradually expand the service area for immediate, real-time settlement service of public transportation charges beyond the Seoul Metropolitan area to provide nationwide service. Also in the future, we plan to develop a feature that allows customers to pay national and local taxes via their mobile phones. This service will promptly notify customers of the status of their tax returns and enable them to make quick payments with immediate verification. We will also activate and improve credit card transactions. Furthermore, with the introduction of standardized technology and equipment, comprehensive services will be available that give our customers more convenient and reliable mobile banking services. Finally, KB plans to introduce a feature called 'e-checkbook,' which will eliminate the need for paper checkbooks.

More meaningfully, the simple integration of bank counter functions into the online channel will significantly reduce the workload of our employees and greatly improve KB's overall efficiency. Ultimately, we plan to lead the market

Comparison of KB Mobile Banking Service and Existing Mobile Banking Services

Type	Mobile Banking Service	
	KB mobile service (Financial-chip based)	Existing mobile banking services (WAP based)
Key-in Stage (Menu)	3 ~4 buttons	10 ~16 buttons
Security Medium	Security Card, Account PIN, Chip PIN	Security Card, Account PIN

Note: Data are based on a single inter-bank transfer.

into the new financial landscape as we move from being a branch-centric banking to an online world unbounded by time and place. These comprehensive services are KB's way of making customers' banking experience both convenient and enjoyable.

Bancassurance

Innovative, Diverse and Customized

Following the Korean government's deregulation, KB introduced bancassurance service in our branches nationwide in September 2003. The services and products were introduced in order to broaden our customer base and fulfill existing customer needs by providing more comprehensive financial planning and higher-quality financial asset portfolios. Through this diversification of revenue sources, we expect to secure a sustainable, high-level of fee income.

In the first phase of deregulation, KB started to offer savings-type and credit-related insurance products, which included life insurance products such as annuity, savings and insurance for credit guarantees and non-life insurance products that generate long-term savings. Other comprehensive and specialized package insurance products were introduced that were price competitive and wide in range e.g., traveling, casualty and fire products. In addition, we launched various types of insurance-related services that were tailored to the requirements of our customers. Now, they can sign insurance contracts after consultations with our insurance service specialists at KB's nationwide branches. KB offers bancassurance products through business alliances with various life and non-life insurance companies, such as Samsung Life, ING Life, Dong Yang Life, Kyobo Life and Korea Life Insurance.

The total insurance premium during the last four months of 2003 amounted to KRW 495.5 billion (Life: KRW 489.9 billion; Non-life: KRW 5.6 billion), which generated KRW 23.4 billion

(Life: KRW 22.1 billion; Non-life: KRW 1.3 billion) of commission income. Annuity products reaped the highest sales level, accounting for over 50% of the total sales. KB's bancassurance is one of the highest fee income sources among bank products sold by KB.

In 2004, KB focuses on diversifying and securing revenue sources by selling more installment-type products to meet customer demand. The second phase of the deregulation of insurance products has been slated for April 2005. This will allow us to sell term-life insurance and car insurance products. In preparation, KB plans to develop a new IT infrastructure and select the best products to suit our customers' needs. We will also push forward with various sales promotion programs to cultivate potential demand and higher profitability, and introduce well-organized programs to enhance our sales capabilities. KB will take all measures necessary to keep pace with our customers' changing needs and ensure our market-dominant position in the bancassurance business.

Business Overview

The year 2003 was one of the most challenging years to date for Korea's financial industry and KB; however, we are now well poised to pursue our vision by enhancing asset quality, developing and introducing new products and services, and further improving operational efficiency. These efforts are ongoing and are presented in more detail throughout the Business Overview section in which we have highlighted various areas of our business operations, and presented the strategies that we have put into place to push KB into the top 30 leading banks in the world by market capitalization.

Retail Banking

Evolving Industry Environment

Throughout 2003, Korea's financial industry has maintained its trend of low-interest rate environment. Accordingly, liquidity in the market continued to move to more profitable, albeit riskier, markets such as real estate and stock markets. Customers began shifting lumps of capital from traditional bank deposits to other financial products and services. All the financial institutions including banks, insurance companies and brokerages were eager to increase the size of their asset management and financial planning business and to acquire a significant grip on these fast-growing markets. Meanwhile, boundaries that had previously separated financial institutions began to collapse, resulting in intensified competition. Financial institutions responded by diversifying into related business areas and venturing into new territory. For example, when the Korean government allowed the sale of bancassurance products as a part of its financial deregulation in September, institutions from different financial sectors, such as banks and insurance companies, were quick to form mutually beneficial strategic alliances. In addition, with the introduction of a new five-day workweek, banks reacted with more aggressive sales programs to maintain and extend their means of staying in contact with customers beyond the new working week.

Broadened Coverage in Retail Banking

Due to our development as a retail bank, with the knowledge 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. While our retail banking activities have traditionally consisted of lending money and receiving deposits, the coverage of our products and services has broadened and now include financial advisory services, mobile banking, asset management, and Internet banking, among others. KB is helping redefine retail banking in Korea with our growing number of high-quality financial services.

Lending Activities

We offer various loan products that target different segments of the population, with features tailored to each segment's financial profile and characteristics. As of December 31, 2003, our retail loans consisted of mortgage and home equity loans, and other consumer loans, which accounted for 67.4% and 32.6%, respectively. For mortgage loans, the Korean consumers in general have favored short-term mortgages such as the three-year floating rate loan. In recent years, however, KB has actively developed longer-term loan products (some as long as 35 years), and heavily promoted the availability of, and the merits in long-term mortgages. While the retail loan in 2003 grew by 9.0%, much slower than the 23.4% in 2002, KB's asset quality has improved due to our focus on quality customers and loan portfolio.

Deposit-Taking Activities

Our extensive nationwide network of branches, merger with KCC, and experience have enabled us to record the largest number of retail customers and deposits among Korean commercial banks in 2003. We offer many deposit products that target different segments of our retail customer base. In tandem with loan growth, deposits grew by 7.3%, allowing KB to secure low-cost funds.

Maximizing profitability through profit-oriented management

Early in 2003, KB introduced our management policy of ‘maximizing profitability through profit-oriented management.’ The two key directions that emerged were the emphasis on financial innovation in products and services and the restructuring of branches to further develop our marketing and sales competence.

Growth in new products and services

We believe the one factor that sets KB apart from our peers is our ability to prepare the groundwork for exceptional financial growth in all our business areas. For example, when the Korean government allowed the sale of bancassurance products in September 2003, we prepared and registered approximately 2,100 sales agents in 1,136 branches. This proactive strategy enabled KB to garner more than KRW 23 billion in commission income in 2003, and placed us in the Number 1 market position with 27.5% market share. We also carried our future-oriented preparation into the investment trust market. Our development of investment trust products, such as ELS (Equity-Linked Securities), savings-type and tax-free securities helped KB generate a record KRW 4.3 trillion in sales of new investment trust product lines.

In 2003, we launched a range of new products and services in a bid to differentiate KB from other competitors. We launched KB Leaders Savings Account KOSPI200, a structured product that is linked with KOSPI options, to draw customers who are sensitive to today’s low interest-rate environment. This new product earned KB KRW 1.46 trillion in sales, the largest amount in the banking industry. We also developed ‘Fortunate Term Deposit’ in order to secure a niche market by launching a game-like product in conjunction with Lotto, earning KB KRW 159.5 billion in sales. In addition, by formulating strategic alliances with Goodmorn Shinhan Securities, we launched KB

Securities Account, an integrated deposit and securities transaction service, to maximize our profits with low-cost securities funds. Only one month after its introduction, we successfully opened about 2,000 accounts. In the last month of 2003, we launched ‘KB Doorae Account,’ a specialized low-cost/high-profit product targeting various social organizations. We sold approximately 1,100 accounts within the first month. In terms of bancassurance, KB provided a variety of product lines tailored to customers’ needs from annuity products to health, education and fire insurances. And in mobile banking, one of our innovative services, we started offering a service dubbed “Bank On,” which provides a variety of services from inter-account transfers to cash withdrawals and public transportation passes.

Rationalization of Business network

In 2003, KB restructured branches to better develop our marketing and sales competence. That means we capitalized on branch marketing and sales opportunities through various promotions, provided the necessary support to branches to reduce their workload, and saved costs through our channel reconfiguration of ATMs, mobile banking and call centers.

We established 36 branches and repositioned 66 branches to improve our network efficiency and profitability. As of December 31, 2003, KB had the largest network of branches, ATMs, and Internet banking access. KB also installed and upgraded a total of 2,500 cash dispensers to advanced ATMs, with improved functions that allow simple teller transactions such as deposits, withdrawals, and wire transfers in a more efficient manner. Advanced ATMs have helped to reduce the current level of teller work to a third of its present level, thereby allowing our branch employees to focus on more productive marketing activities.

Our call centers support the increasing call volume coming through our retail banking, and in

■ ■ In 2003, KB launched innovative financial products and services as well as initiating our restructuring efforts through a reconfiguration of our business network.

Business Overview

KB set an industry precedent by taking steps to slow down loan growth to avoid building up potential bad loan assets.

2003, KB opened another call center in Daejeon. In the near future, we also plan to integrate our existing call center with the credit card call center to centralize our customer service and tele-marketing activities. KB also continued to upgrade our e-banking operations, and our Internet banking acquired the international ISO17799/BS7799 information security standard that generated even greater confidence in KB's advanced technology. KB now stands at the forefront of the Internet banking sector.

Enhancing Customer Relationships and Revenue Sources

Looking ahead, we will foster long-term customer relationships based on our multi-specialist strategy. As initiating business approach changes, our branch managers are no longer just passive bankers; instead, they will be marketing leaders who initiate branch marketing and coach their teams to greater success. Our branch employees will improve their sales skills and work more efficiently. Set in this operational framework, we hope to create branches that serve as a one-stop financial gateway with upgraded level of service, innovation, and dedication.

To expand our branch marketing opportunities and provide the support they require, we have improved our customer relationship management (CRM) system. This system involves gathering the information we possess about KB customers (i.e. transaction history, demographic profile, financial needs, and contribution to our profitability) to classify the information into marketing segments. We will then develop more effective marketing strategies for each of our customer segments. By continually updating our CRM system, we are also able to evaluate the effectiveness of our targeted marketing strategies, make adjustments and develop better strategies.

In 2004, we will focus on strengthening customer services in branches and call centers. KB will improve the level of customer satisfaction by enhancing sales skills and services at all our

customer contact points. To increase the performance of each branch, we will implement a campaign called 'Knowing Our Customers'.

In the future, KB will enhance our profit-oriented sales capabilities by establishing a strong sales foundation. We will increase our fee-based income, such as the income from our settlement services and insurance products. KB will also develop new market-leading products and seek growth based on solid profits rather than market-share growth. We will actively seek out new customers by developing our products and services based on proven market research.

Corporate Banking

Market Environment

In 2003, the domestic economy continued to falter due to reduced public consumption and shrinking corporate investments. Furthermore, companies with poor credit ratings or limited profit margins experienced great difficulties. In corporate banking, such sluggishness in corporate activities led KB to focus on improving asset soundness and slowing loan growth, while upgrading corporate banking capabilities. In addition, we established a new relationship management (RM) model and rationalized our marketing activities to focus on customers whose businesses were financially secure with bright prospects.

Operations in 2003

In 2003, corporate banking accounted for 34.4% of total loans in won. During the past year, KB set an industry precedent by taking steps to slow down loan growth to avoid building up potential bad loan assets. Preemptive measures of slower loan growth was evidenced by the growth rates of small-and medium-sized enterprises (SMEs) loans during the year. The rate of SME loan growth in the first quarter of 2003 was 4.9% while the annual average leveled out at 4.1%. During the decelerated-growth period, we acquired a longer list of "quality" customers. As of December 31,

2003, we had 120 branches dedicated exclusively to corporate banking.

Small-and Medium-Sized Enterprise Banking

As of the end of 2003, our SME portfolio recorded at KRW 38.2 trillion, accounting for 89.9% of total corporate loans in Won. As such, KB's SME-oriented corporate banking business has been and will remain one of our core business competencies.

The principal focus of our corporate banking activities is on the SME market because of its growth potential. We believe that we possess the necessary elements to succeed in this market through our extensive branch network, our improved credit rating system for loan approval, our marketing capabilities (which have provided us with significant brand loyalty), and our ability to take advantage of changing market conditions.

Our core loan products for SME customers are working capital and facilities loans, bills discount and trade finance.

When evaluating working capital loans, we review the corporate customers' creditworthiness and their capability to generate cash. Furthermore, we take personal guarantees and credit guarantees from other financial institutions, and use borrowers' deposits as collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services connected to a loan extension.

We also offer collective housing loans. These include mortgage loans to homebuilders or developers who build or sell housing units, loans to contractors used for working capital purposes, and loans to educational foundations, SMEs and not-for-profit entities to finance the construction of dormitories. Many of these builders and developers are categorized as SMEs.

One of our newest target lending markets with respect to SMEs is the 'small office/home office,'

or SOHO customers. SOHOs represent sole proprietorships, individual business interests and small corporations. We generally separate SOHOs into two groups: ones with financial statements and ones without them, and offer differentiated services based on our evaluation of their corporate credit risk profiles. For SOHOs that do not provide financial statements, we apply a stricter credit risk evaluation model. In addition, our credit officers perform a qualitative analysis of each potential SOHO customers. For those that maintain financial statements, we typically lend to them on an unsecured basis. We evaluate risk in this segment by applying our corporate credit risk system, which uses both financial and non-financial criteria. We strive to deliver increasingly professional financial services to our SOHO customers.

Large Corporate Banking

Large corporate customers include all companies that are neither SMEs nor government corporations. Being a retail-driven financial services company, we selectively maintain close relationships with large corporations that command sound financial strength. As large corporate banking is not as lucrative as, retail or SME banking, and has a higher potential risk, we maintained our current large corporate banking including loans to public institutions at approximately 3.5% of the total loans in won in 2003. We intend to maintain our large corporate banking activities at their current level while expanding our investment banking activities to further develop our M&A advisory service, international financing, asset securitization and securities agency business. Accordingly, we included our investment banking division into our corporate banking group during the organizational restructuring initiated in Feb. 2004.

As in the case of SME, our principal loan products for our large corporate customers are working capital loans and facilities loans.

Business Overview

Enhancing asset quality, profitability and corporate banking capabilities

As one of our core directives for 2003, we implemented measures to enhance our asset quality. This involved reinforcing our preliminary screening and post-management mechanisms for SMEs. We offered employee training programs related to credit rating evaluation and supported branches to enhance their preliminary evaluation capabilities. We also intensified our interim check and post-management for real-estate development loans by thoroughly checking the status required for any conditional loans made, and by establishing post-measures to put into effect the “planned but as-yet-unimplemented” loan amounts. We also checked the status of project financing against the plan for development, and imposed a mandate redemption ratio for CCC or low-rated companies by establishing the necessary guidelines. In addition to this, we amended our corporate exposure limit (CEL) system and reduced the delinquent amount by creating guidelines to impose a ceiling on credit limits.

KB enhanced profitability by expanding fee-based operations, for example, by introducing commissions for undrawn credit limits and commitment fees. Furthermore, we introduced risk-adjusted pricing system (RAPS), which will reflect various risk levels for pricing new loans. We also improved our customer profitability analysis by enhancing customers’ profit contribution analysis as well as by measuring the profitability of other cross-selling transactions. In line with our strategy of upgrading our corporate banking capabilities, KB restructured our loan asset portfolio with superior and sounder assets by extending our efforts to seek out quality SMEs. We significantly improved our SME portfolio by soliciting sound customers (i.e. internal credit ratings of BB or above) of approximately 3,000 companies, or KRW 1.09 trillion in loans in won.

To do our new portfolio justice, we reinforced our portfolio management by segmenting our customers by industry, credit rating, and size, and

also rebalanced our portfolio by underweighting our exposure to cyclical industries, such as construction, real estate, restaurants and lodgings. Despite the steady increase in loans to SMEs, loans to large corporations continued to decrease as we channeled our energies into seeking quality, large corporate customers.

In 2004, we will set forth and adhere to the basic strategies of maximum profitability, higher asset soundness, greater competitiveness, and improved working process. To this end, we will implement a comprehensive cash management service (CMS), activate account planning, create new revenue sources and initiate more investment banking activities as a market leading financial services company. Along with a range of fresh initiatives, we will consolidate our present position by constructing a framework to better manage asset-soundness, restructure our loan assets, enhance our credit evaluation capabilities and foster specialists. We will also strengthen our customer relations and establish a more advanced, comprehensive corporate loan system.

Credit Card

Business Environment in 2003

The usage of credit cards in Korea has increased dramatically in recent years, both in terms of number of cardholders and amount of use due to aggressive marketing by credit card companies and an increase in consumer spending. However, in 2003, the credit card market experienced rapid contraction due to an array of factors: a sluggish local economy affected by global economic and geopolitical woes, and a rising household debt level and loan delinquency. To control asset quality and deter delinquency, credit card companies applied stricter limits on individual credit, and the government introduced measures to curb a sharp rise in household debts.

The SK Networks accounting scandal in March 2003 further hardened the corporate bond market and caused difficulties in funding for credit card

companies. These difficulties encouraged credit card companies to radically reduce their credit limits for low credit-rate debtors already weighed down with debt, ultimately accelerating the delinquency rate. The repercussions of this move included general asset quality deterioration and a negative impact on the financial status of credit card companies. This led to an increased interest rate for funding and, subsequently, a potential for a liquidity crisis. It set in motion a vicious cycle that was exacerbated when LG Card and Korea Exchange Bank Credit Service (KEBCS) stopped their cash advances due to lack of liquidity in November and December 2003, respectively. These factors undermined market confidence in the credit card industry and dealt a severe blow to mono-line credit card companies.

KB's Proactive Merger with KCC

Kookmin Credit Card (KCC), a 74%-owned subsidiary of KB prior to its merger with KB in September 2003, was not immune to the woes of the credit card industry. KCC faced deteriorating asset quality, increasing delinquency, and potential problems of high-cost funding. KB took proactive steps to cope with unfavorable market environment in advance of the likely restructuring of the credit card industry. KB's early merger with KCC, reborn as an integrated credit card operation, KB Card, after the merger, will lead to lower cost of funding as it can leverage KB's financial strength. KB Card will also benefit from KB's resources, guidance and management in addition to KB's extensive network base. At the onset of the merger, KB immediately tackled KB Card's asset quality through heavy provisions, enforced stricter underwriting guidelines and risk management protocols, and worked closely with KB Card's management for joint strategy sessions. KB's policy of profit maximization will bode well going forward for our credit card operations.

KB Card's Growth Strategies

KB Card's business strategy has remained focused on securing asset soundness through

stricter risk management, while at the same time working to streamline and upgrade marketing activities. To strengthen the risk management policies, we tightened the qualifications by which members are selected in order to stem any further influx of non-performing loans (NPLs). For existing members, KB fortified the Early Warning System (EWS). We have also greatly expanded our delinquency management capacity to secure debt management and recoup delinquent payments. As a result of these efforts, we were able to minimize NPLs and maximize collections.

For marketing activities, we avoid nondifferentiated mass marketing formulas that we practiced in the past. Instead, we initiated new strategies based on the customer relationship management (CRM) system in order to increase credit card usage by offering differentiated, value-added services to specific segment groups in alliances with companies in different businesses. After the merger, we acquired many quality KB customers using the shared customer database of KB and KCC, which was made possible by the merger. KB Card also implemented a wide range of promotional activities for the benefit of superior customers who conducted banking transactions at KB.

Operating results in 2003

KB's credit card operations remained weak throughout the year, along with the rest of Korea's credit card industry. This unsatisfactory performance stemmed from various reasons such as the reduction in card transaction volume caused by low domestic consumption, and a cutback in cash advance service caused by lowering credit limits for multi-card users.

By December 31, 2003, the transaction volume had fallen by 19.3%, down from KRW 114.6 trillion in 2002 to KRW 92.5 trillion. Credit sales were reduced by 2.8% to reach KRW 38.2 trillion, and the cash advance fell dramatically by 27.9% to hit a low of KRW 54.4 trillion. For the

With our proactive merger with KCC, KB is now poised to further strengthen the KB Card operations.

Business Overview

▣ We will secure a high level of profitability by reorganizing asset portfolio while improving our asset quality.

initial three-month period after the merger, KB issued 399,416 KB Cards, acquired 105,235 new members, and issued 265,381 KB Check cards (debit cards).

Operating Environment in 2004

In 2004, the cash advance service is anticipated to reduce in volume due to its continuous discriminatory limits for both marginal customers and multi-card users. However, a turnaround is expected for the credit sales business once consumption is normalized in the latter half of 2004. In general, the overall size of credit card market may not grow despite the expected recovery of consumer consumption. Also, we will strive to secure our core competitiveness in areas such as CRM and risk management, while activating the revolving and Check card (debit card) systems on a broader scale in the second half of the year when the problem of debtors clears up and profitability in credit card operations improves.

Future Strategies

We will restore a high level of profitability by reorganizing asset portfolio to contain high quality assets and by segmenting customer database in KB Card for increased marketing solutions. As a part of our post-merger integration for the newly created KB Card operations, we have also integrated risk management and new technology-based operations to achieve greater productivity.

To improve our asset quality, we will court more financially sound customers, activate a revolving system and issue more Check cards. We will focus our marketing activities on superior customers by initiating differentiated sales approaches for each customer segment group. To stay one-step ahead, we will improve our CRM system and upgrade our customer analysis capabilities. At the same time, we will promote credit card loans to our high-end customers and take advantage of cross-selling opportunities by sharing customer information and sales channels. By reinforcing our risk management with full-

scale customer information sharing, we will continue to monitor credit limit for multi-card holders and establish an integrated credit scoring system using customers' financial data such as customers' deposits and loans. To push our hi-tech credit card products and services, we will expand 'Pass card,' a credit card with a public transportation payment function nationwide, secure a competitive edge in Korea's mobile commerce market and adopt an integrated circuit (IC) card system. The integration of credit card operations after the merger will help bind credit card business management and work process together, consolidate and stabilize our credit card IT system and call center, and gradually shift existing KCC and BC Card holders to newly launched KB Cards as their current credit cards expire.

Capital Markets

Business Environment in 2003

The Korean securities market was vulnerable to geopolitical and recession-related concerns, both of which helped trigger higher market volatility and short-term inflexibility in the international and domestic capital markets. Consequently, international and domestic capitals were mostly invested in the short-term fixed income products, increasing the rigidity of capital flows.

Early in 2003, the stock market remained sluggish albeit low interest rates because of domestic recession as well as the negative impacts of the Iraqi War on the global economy. But later in the year, the securities market showed signs of stable recovery and uncertainty began to dissipate while stock prices and interest rates steadily rose amid investors' positive prospects. However, companies' fund raising activities in the direct financing market remained sluggish and ABS market continued to stagnate, particularly as credit card ABS issuances were affected by the asset quality deterioration of credit card companies and their liquidity problems. The custody market also slimmed down by 17% compared to 2002, while in the

securities agent market, competition intensified with repeated KOSDAQ and IPO market contractions.

Achievements in 2003

Despite the unfavorable market environment, KB initiated various strategies to boost our risk management and securities-based revenues. These include our revision of securities-investment regulations, which reduced our stop-loss limit of trading securities portfolio from 20% to 12%, and improvement of our compliance systems. We also diversified our investment tools such as generating more risk-free revenues, spread transactions between interest rate swaps and treasury futures.

By moving ahead of market and developing a new structure type for ABS offerings, KB firmly crystallized our new revenue sources. In addition, we attracted more customers by upgrading marketing activities and providing differentiated services for originators. Although competition in the ABS market grew increasingly intense, we proved our mettle by garnering KRW 10.8 trillion to account for 39.4% of the ABS market. In an effort to identify new profit sources and increase non-interest revenues, we initiated the sale of the ABS bonds through branch counters for the first time in the banking history.

As a leading custodian, KB raised our market share in the trust fund market to 30% of the total market volume. We were also selected as a custodian for the invested assets by Samsung Life Insurance, The Ministry of Information and Telecommunications, and The National Pension Corporation. KB's market dominance has also been built in the field of foreign custody services. In line with the security services of our bound investment, KB's global custody network is becoming broader in scale.

To enhance our competitiveness by better weathering industry-wide changes, we acquired ISO 9001 certification for our securities custody operation from English SGS. We also moved

more aggressively into the custody business by establishing new IT systems to prepare for the enactment of the Indirect Investment Asset Management Business Act.

Vision & Key Strategies

KB's capital market business will become one of our most efficient sources of revenues by further specializing in securities investments and focusing on fee income. KB will stabilize investment returns and our asset soundness by upgrading investment techniques and strengthening risk management. We will nurture our fee income sources by expanding our areas related to asset-backed securities (ABS), securities investment custodies and securities-related agents, and by aggressively seeking out new income sources. KB will also firmly establish ourselves as a capital markets leader, capable of weathering an unstable financial environment by developing strategies to maximize investment capacity and by capitalizing on our specialties in this area.

Key Focuses in 2004

In 2004, KB will reinforce our dealing activities and improve profitability by reorganizing our investment portfolio through various ways such as increasing the proportion of short-term trading securities. We will also fortify our interest rate risk management against the possibility of anticipated interest rate hikes in 2004, and upgrade internal risk management policies to increase the transparency of securities transactions (especially in the bond markets). As a leader in the ABS market, we will increase our high credibility, develop our human resources network, and work on expanding our revenue sources.

In addition, we need to aggressively penetrate the custody market in order to consolidate KB's current market dominance in response to new opportunities such as the enforcement of the "Indirect Investment Asset Management Business Act," and the introduction of the corporate pension plan. By utilizing the service

KB's capital market business will become one of our most efficient sources of revenues by further specializing in securities investments and focusing on fee income.

Business Overview

▣ We will establish a solid foundation for the trust business so as to be recognized as a leading asset management company.

expertise we have established in foreign fund markets, we can advance into new markets by further initiating marketing activities. We will continue to add value to KB's profitability by creating new revenue sources and marketing collaborations. Internally, KB will upgrade our IT system and increase our web-services for customers, thereby building up professional efficiency and keeping up with customers' growing need for sophisticated financial products.

Trust Business

Environment in 2003

Public interest in making deposits into financial trust products waned in 2003 in the wake of the instability in the equity and bond markets. These conditions were reflected in the considerable decrease in money trusts managed by KB, which were inextricably linked to sinking customer confidence in trust products and a protracted economic recession. Meanwhile, the Korean government was making preliminary preparations to introduce a corporate pension plan and later enacted the Indirect Investment Asset Management Business Act, which may have significant repercussions on the trust market. The Indirect Investment Asset Management Business Act integrates all the indirect investment laws and regulations related to securities investment trusts, mutual funds, and non-specified money trusts. This new Act is aimed at encouraging indirect investments by resolving conflicts among regulations and restoring public trust by enhancing the level of business compliance and investor protection provisions. However, it could have adverse effects on banks, as the law stipulates stricter regulations, and it will imminently put a ban on the sales of unspecified money trusts products beginning July 2004.

Assuming New Strategic Positions

KB's operating income from trust accounts was KRW 232.5 billion in 2003, a KRW 68.5 billion

decline from the previous year. The decline of operating income is mainly due to KRW 74.9 billion decrease of trust fee income, which resulted from KRW 10.5 trillion decrease in trust asset balance. However, there was considerable reversal of allowances for valuation of receivables amounting to KRW 108.1 billion due to unrealized valuation gains and gains from sales of equity-swapped shares, from a sharp recovery of non-performing loans and enhanced asset quality.

As of the end of 2003, balance for money trusts had fallen by KRW 5.1 trillion to KRW 10.3 trillion. This was mainly attributable to the phasing out of non-mark-to-market valuation funds, the decreasing demand for specified-money trusts due to SK Networks and faltering credit card companies and stagnant sales of non-mark-to-market valuation funds. Balance of property trusts dropped dramatically by KRW 5.4 trillion as the money receivables trusts were reduced in line with shrinking demand for ABS, which was in turn affected by the ailing credit card companies.

We developed various new customized and specialized products, systematic funds, and derivatives-related funds in order to satisfy customers' needs for indirect investment financial products to match their newly upgraded standard of living. We also tried to secure stable trust volume by increasing sales of long-term installment-type trusts such as annuity. During 2003, we launched various new types of products and services with different approaches, for example, 'KB Silver Plan New Pension Trust,' provides insurance services such as casualty insurance and insurances for certain kinds of cancers for women according to the demands of customers living on annuities.

KB also channels our core competencies into creating new revenue sources, which is distinctively different from a traditional money

trust, such as wealth management-type products and services that conform to our private banking (PB) business and property trusts. We have continued to cement our image as a specialized asset management institution with our competitive -edge asset management infrastructure.

We created a new product line by linking system operations to derivatives via business alliances with domestic and international asset management institutions. In many respects, our crowning achievement was the 'KB Riding Wave System Trust,' a product that responds to stock price fluctuations. The Seoul Economic Daily selected the product as one of 'Hit Products' in the first half of 2003.

In addition, we began offering shortest-term (3 months) ELS (Equity-Linked Securities) products for day trading customers. This represented the shortest-term products of its kind, setting a new precedent in the financial services arena. KB also expanded REIT investments to companies that engage in renovating buildings. We established a firm foundation for transforming ourselves into a comprehensive asset management service provider by introducing REITs and estate trusts for the wealthy in line with our PB business strategy.

What Lies Ahead

The year 2004 heralds both opportunities and challenges to KB when the Indirect Investment Asset Management Business Act takes effect and the corporate pension plan is introduced. In the early stages of the new trust business environment, KB's success or failure will largely hinge on our counter-strategies. As this marks the initial sink-or-swim year for our trust business in relation to the enactment of Indirect Investment Asset Management Business Act, we have to establish a solid foundation for the business so as to be recognized as a leading asset management institution. In order to proactively respond to the challenging regulations, we will optimize our operation infrastructure to secure a sharp

competitive edge in the asset management industry; increase our trust assets by selling specialized products and services; and bring back customer reliance and seller confidence on trust products.

International Banking

Market Environment

KB offers a range of international banking services to our customers, including foreign exchange, import and export transactions, offshore lending, syndicated loans and foreign securities investments. These are provided primarily to domestic customers and overseas subsidiaries or affiliates of Korean companies. We also raise funds in foreign currencies through our international banking operations.

For most of 2003, Korean companies operated in an unstable market environment. Accordingly, many companies rescheduled the timing and level of investments; hence, there has been little increase in new business. Consequently, competition intensified among financial services companies as they fought for a share in the diminished market. In this circumstance, however, KB stood out by being nominated as one of the top tier arrangers for Korean-syndicated and club loans, including FRNs by the Hong Kong publication, Basis Point.

Operations in 2003

KB reported reduced margin levels and fees from its underwriting and financing business. In 2003, we reinforced and upgraded our risk management system for the international banking business and KB also rolled out a series of strategies to respond to an intense competitive environment. We focused on maintaining competitive edges in product development and marketing and strengthened our market leadership in foreign currency dealings and derivatives. KB also established strategic overseas networks to enhance cross-sales capabilities.

KB will maintain our leading position in the international banking industry and create more revenues through overseas projects.

Business Overview

During 2003, we began offering a higher-caliber service in international banking, established our standing as Korea's top dealing center, reinforced the sales capabilities of overseas networks and upgraded our IT infrastructure. New inroads in foreign exchange dealings and derivatives included an increased market share in the Won-Dollar foreign exchange and swap transactions, and greater revenues from development of derivatives products that satisfy customers' needs.

We have demonstrated our ability to successfully raise mid to long term foreign funds. In 2003, we raised approximately US\$ 1 billion, including US\$ 0.2 billion in Euro bonds at competitive interest rates.

In addition, with a highly-developed IT infrastructure, we improved our work process and established an advanced management system to better accommodate our growing business as we build brand value for international banking operations.

Keen to sustain our market leadership in foreign currency dealing and derivatives, KB placed fresh emphasis on meeting customers' needs with new lines of products such as interest/currency options. Among our new products launched in 2003, trust products linked with derivatives were sold mainly to PB customers. This product is a package product that integrates foreign currency bonds and currency swap transactions. KB transacted US\$ 39.4 million in sales of this innovative product line. In addition, term deposits that are linked with the KOSPI200 index were sold for KRW 150 billion to the Ministry of Information and Telecommunications. We also transacted KOSPI index options to hedge inherent risk in KELS (Korea Equity-Linked Securities) that were invested by the securities management team. KB transacted KRW 200 billion in sales and secured stable investment returns. KB Cap Plus Loan combines a three-month floating interest rate loan with interest rate

options. This product enables customers to benefit from hedging their level of risk for corporate working capitals over KRW 500 million to avoid being penalized by sudden interest-rate hike, while making considerable returns when interest rates fall. KB also launched package products that integrate foreign mutual funds with currency forwards. For example, through business agreements with several securities companies, we sold US\$ 2 billion of Foreign Exchange Forward Product for "Offshore Mutual Fund," which attracted over 7,000 investors.

Strategic Plans for 2004

In order to achieve great success in 2004, we devised three key business goals: to secure our leading position by developing various financial instruments designed to meet customers' needs; to solidify our dominance in international underwriting/financing and foreign exchange market; and, to manage our overseas network with the utmost efficiency.

In 2004, we will maintain KB's leading position in the international banking industry and create more revenues through overseas project financing, structured finance and the sale of well-structured derivatives products. We will be one of the member banks of CLS (Continuous Linked Settlement) Bank by the end of September. Marketing activities and sales bases, especially for financial institutions, will be enhanced and rebuilt. We will implement each of these initiatives with reliable and cutting-edge risk management systems.

Management of National Housing Fund (NHF)

KB plays the largest role in managing the National Housing Fund (NHF), a Korean government fund that provides mortgages to low-income households, and loans to construction companies to build properties for low-income families. The activities of the NHF are funded by: (i) loans from the Korean government; (ii)

issuing national housing bonds, which must be purchased by individuals and legal entities wishing to make real estate-related registrations and filings; (iii) subscription savings deposits held at the National Housing Fund; and (iv) lottery ticket sales. From April 2004, this activity has been governed by the newly enacted Lottery and Lottery Fund Act. Prior to 2003, KB was the sole manager of the NHF.

Market Environment

The Ministry of Construction and Transportation (MOCT), the government entity responsible for NHF, decided to invite other financial institutions to participate in managing the fund in late 2002 so as to increase competition. The MOCT also worked to stimulate housing demand, adjusting its loan policies by increasing loan limits per household and lowering the interest rates. The government further improved its fee-payment system by adopting the ABC cost system, which it felt better reflected the changing economic environment. To stimulate loan demand for its housing fund, the MOCT lessened the application requirements and announced its 'Construction of 1.5 million houses for national lease' campaign and its 'Five New City Development Program in Metropolitan Areas.' As a result, customers scrambled for subscription savings accounts. At the same time, the use of online subscription system was initiated by the government that helped streamline the workload of KB and other banks. Various initiatives taken by the Korean government helped improve market conditions for NHF during the year.

In relation to housing subscriptions in 2003, vast sums of floating capital flooded the real estate market as housing prices continued to increase and interest rates remained low, which generated greater demand for subscription savings and new housing. As part of its real estate market stabilization policies, the government implemented a system to limit the resale of apartment lot-out tickets and applied the real

transaction price for the base of capital gain taxes, thereby curbing real estate speculation. As demand from real estate speculators dropped off, demand for housing subscriptions declined and the market was reshuffled around real demand. In this context, the market for property letting was scaled down with reduced new housing constructions caused by an increase in unsold houses.

KB's Initiatives in 2003

In 2003, we enhanced our marketing activities to secure the loyalty of existing customers and broaden our customer base. In response to changes in the fee payment system, we introduced measures to evaluate performance and provide employees with a strong incentive to succeed, thereby increasing our fee income. We also led the real estate information market as we focused on Web-based real estate information services. In addition to this, we began operating a broad-scale database to predict apartment price trends, aided by real estate agencies that buttress our current network. Our credibility in terms of providing real estate information led the Ministry of Finance and Economy to approve KB's real estate price information and related service offerings, and the Ministry of Construction and Transportation assigned us to survey the housing price trends.

As market competition is expected to heat up, we will respond proactively by focusing first on creating new customers and raising our fee level for NHF loans and subscription savings operations. In addition, we will integrate the capital from NHF loans for better productivity and standardize our guidelines detailing how operations should be conducted. We will also push forward with online registrations to facilitate the issuance of National Housing Bonds. Through such efforts, we will increase fee income from agent sales of National Housing Bonds and opening of securities-linked accounts.

As market competition is expected to heat up, we will respond proactively by focusing first on creating new customers and raising our fee level for NHF loans and subscription savings operations.

Business Overview

Lotto and other lottery businesses

KB's penetration into the domestic lottery market with 'Lotto,' one of KB's lottery products, intensified competition in a field that had already been sharpened by tighter government regulations. Despite the market hostility, our product proved popular enough to secure our leadership over other lotteries.

As our Lotto business developed into a success story of its own since debuting in December 2002, we were able to establish a firm position in the domestic market, garnering a large sum of commission income and greatly increasing our market share.

With the enactment of The Lottery and Lottery Fund Act, the government plans to tightly

regulate the lottery market. A part of that monitoring includes lowering the price of Lotto tickets to form a sound lottery investment culture. We therefore expect our market share of ticket sales to reduce in value due to lower prices, and possibly, customers' waning interest in the lottery as time progresses. To mitigate the fallout of this move, we will build on our leading position as a lottery issuer by expanding our Lotto sales network and enhancing our brand power with more expansive public relations activities. One of these is our linking of Lotto sales and community service by reminding people that ticket proceeds are used to offer mortgages to low-income families and provide loans to construction companies. We plan to use our Lotto business as a means to help create a long-term, stable source of revenue.

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Corporate Governance

Board of Directors

Executive Directors

1 2 3 4



♣ **Jung Tae Kim**



♣ **Sung Nam Lee**



♣ **Donald H. MacKenzie**



♣ **Seong Kyu Lee**

President & CEO

Auditor & Executive Director

Senior EVP, Risk Management Group

Senior EVP, Work-out & Operations Group

Non-Executive Directors

1 2 3 4

5 6 7 8

9 10 11



♣ **Moon Soul Chung**



♣ **Sun Jin Kim**



♣ **Dong Soo Chung**



♣ **Richard Elliott Lint**



♣ **Kyung Hee Yoon**



♣ **Woon Youl Choi**



♣ **Suk Yong Cha**



♣ **Wang Ha Cho**



♣ **Bernard S. Black**



♣ **Ki Hong Kim**



♣ **Young Soon Cheon**

Advisor, Mirae Corporation

Chairman, Yuhan Chemicals Ind. Co., Ltd.

Professor, Sangmyung University

Principal, Mecer Human Resource Consulting

Chairman & Country Head, ABN AMRO Korea

Dean of Graduate School of Business Administration, Sogang University

President & CEO, Haitai Confectionery & Foods Co., Ltd.

Vice Chairman, Kolon

Professor of Law, Stanford Law School

Professor of Business Administration, Chungbuk National University

Professor of Business Administration, Chungang University

Corporate Governance

Mission

KB aspires to the highest standards of ethical conduct, reporting corporate developments with accuracy, relevance and clarity on a timely basis, while staying faithful to our commitments and compliance. The primary mission of our board of directors (the "Board") is to govern KB's affairs in a manner that benefits the diverse interests of our constituencies around the world, from investors and customers to employees and local communities. Every action reflects the Board's sound business judgment and serves KB's best interests. In performing their role, the Board depends on the honesty and integrity of both senior executives, outside advisors and auditors.

Periodic engagements with independent consultants provide a forum to discuss global corporate governance issues and solutions. These also serve as opportunities to evaluate and track the Board members' performances. More specialized consultations are encouraged at KB's expense.

The Board Members

KB's board of directors is comprised of four executive directors and eleven non-executive directors who collectively assume ultimate responsibility for managing KB's affairs. All Board member appointments are made based on each individual's expertise and experience in a variety of fields such as law, finance, economy, management and accounting, and appointment of the Board members are implemented within the parameters of KB's Articles of Incorporation. The maximum number of directorial seats is 30. Executive directors are elected for a three-year term of office and they must at all times represent less than 50 percent of the quota. Non-executive directors are elected for a one-year term, which is renewable, and remains subject to the provisions of the Korean Commercial Code, the Banking Act and related regulations.

Responsibility and Authority

The 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 committees (see page 57) under the Board's authority. Each Board member takes an oath to adhere to KB's Code of Ethics and relinquishes any special relationship to, or monetary interest in KB, beyond his or her remuneration as a director. In line with codified market terms, permitted transactions between KB and a director, or his or her family members, or respective primary business affiliations, should be conducted at arms-length.

There is no legal distinction between executive and non-executive directors. As a consequence, non-executive directors have the same legal duties, responsibilities and potential liabilities as their executive counterparts. All directors should approach KB and business issues armed with a broad perspective. The Board's key responsibility is to provide strategic guidance to drive KB forward, while breaking down the performance of our senior management team for the benefit of investors, customers, employees and our communities. The Board's distinctive responsibilities and authority are as follows:

General Shareholders' Meeting

- Convene general shareholders' meeting and open the agenda
- Approve financial statements and Operation Report
- Make decisions on dividend policy

General Management

- Design management objectives and evaluate performances
- Set budget plan and remuneration scheme for directors and employees
- Review material contracts, lawsuits and borrowings

Organization and Officers

- Establish, revise or rescind major regulations and standards as laid down in the Articles of Incorporation
- Make important organizational changes such as dissolutions, business transfers and/or mergers
- Oversee elections of the Chairman of the Board, the president, executive vice-presidents and directors of the Audit Committee
- Appoint and/or dismiss committee members

Corporate Governance

Funds and Capital Raising

- Approve issuance and terms and conditions of new shares and bonds
- Note changes in paid-in capital, issuing or retiring of shares
- Revaluation of assets

Other matters determined by local laws and regulations regarding the Board

- Internal controls
- Stock options
- Acquisition of treasury stock
- Appointment of a compliance officer

Major Performances in 2003

In 2003, the board of directors held a total of thirteen regular and extraordinary meetings to discuss a wide spectrum of corporate concerns such as the grant and cancellation of stock options, the merger with Kookmin Credit Card (KCC), the investment in Bank International Indonesia (BII), and purchase of treasury stocks from the Korean government, among others. In a meeting held in tandem with the general shareholders' meeting that dealt with fiscal year 2002, the Articles of Incorporation were amended to outline what circumstances justify the cancellation stock option grant. At the end of the first quarter, the charter under which the board of directors operates was revised and new committee members were appointed. The Board also enacted a provision concerning the President Nominating Committee. Later in the quarter, the Board made a resolution on the contemplated merger between KB and KCC, which was ratified later in July.

In the latter half of 2003, the Board approved a revised strategic alliance agreement with ING Group. Early in the fourth quarter, the Board agreed upon the procedure for exercising stock options, and approved the plan to participate in the collective 51% stake acquisition of Bank Internasional Indonesia (BII) through a special purchase vehicle—Sorak Financial Holdings Consortium. At the end of the fourth quarter, the Board passed the plan to dispose of 1,000,000 treasury shares for the purpose of contribution to KB's Employees Stock Ownership Plan

(ESOP) account and approved purchase of treasury stock to be reacquired from the sale of the government's stake in KB.

Outstanding performances of non-executive directors

Throughout the year, our non-executive directors actively participated in KB's decision-making processes, reviewing and offering independent suggestions on all issues raised at the Board meetings. They responded to January's move to issue Hybrid Tier I securities by raising questions as to why securities with a potentially fluctuating selling price were preferable to regular securities. They also remarked that appropriate time periods and conditions should be met before proceeding with the issuance. During May's meeting regarding the resolution to the merger with Kookmin Credit Card, they requested more extensive data and a comprehensive planning scheme to better plot KB's financial status after the merger. They also made constructive comments while reviewing the BII investment, and 2004 management plan in the fourth quarter when the issues were tabled during the Board meetings.

Non-executive directors' active participation in Board meetings encouraged a free exchange of ideas that represented conservative as well as more independent and objective views. As professionals working together constructively in their specialized fields, they made contributions as an integral part of the KB team.

Initiatives for 2004

- Strengthen the specialized nature and independence of our non-executive directors and members of the Audit Committee.
- Plan to outline detailed specifications of non-executive directors and Audit Committee members in the Article of Incorporation and related regulations.
- Keep abreast of the latest developments in corporate governance for the continual improvement of the Board's endeavors.
- Enhance activities that support efficient operations of the Board.
- Implement educational and training programs for the directors.
- Encourage open and frequent communication between management and non-executive directors through KB reports and reference materials.

Committees and Activities in 2003

Six committees that currently serve under the Board are as follows:

- Board Steering Committee
- Management Strategy Committee
- Risk Management Committee
- Audit Committee
- Compensation Committee
- Non-Executive Director Nominating Committee

The Board assumes responsibility for electing the members of each committee except the Audit Committee whose members are elected at the general shareholders' meeting pursuant to relevant Korean laws. To ensure impartiality, all committee heads must be independent non-executive directors.

Board Steering Committee

The Board Steering Committee oversees the smooth running of the Board and helps facilitate its operations. It recommends and reviews candidates for directorial positions and suggests a list of names for the other committees. In a bid to attract the most qualified directors to KB, it also evaluates the relevant compensation programs and retainer arrangements to ensure they are competitive. Other responsibilities include reviewing the Board's composition and assessing how faithfully it satisfies the Board's fiduciary duty.

The Board Steering Committee is at the head of the committee hierarchy and applies checks and balances to ensure that different committees work together in harmony. At the same time, it nurtures each committee's independence and permits them the flexibility to set their own performance targets. In January of the first meeting every year, the committee members review what needs to be accomplished until the general shareholders' meeting, and exchange their views on the operations of the board of directors.

Management Strategy Committee

The Management Strategy Committee oversees the formulation of KB's long-term strategy and reviews the latest operational initiatives proposed by management.

In 2003, the committee held five regular meetings and discussed various strategic issues, including KB's strategy of becoming a multi-specialist financial institution. It also deliberated over a range of operational tasks from planning for the launch of bancassurance and the merger with Kookmin Credit Card to the strategic alliance with ING Group. The committee also discussed the BII acquisition and the rationale of acquiring Hanil Life Insurance Company.

Risk Management Committee

The Risk Management Committee oversees all issues in this area. In order to ensure financial stability and optimal profits, the committee monitors KB's overall risk exposures and ensures we have complied with the relevant policies and parameters. In addition to reviewing risk control strategies and policies, it evaluates whether each risk stands at an acceptable level; establishes and terminates risk management divisions; reviews risk-based allocations of capital; and analyzes the success rate of internal control.

In 2003, the committee held four regular meetings to discuss KB's risk-oriented strategies. The agenda included: a new and comprehensive monitoring system; a credit risk management enhancement plan; the Basel II master plan; specially tailored risk management for SMEs; secured corporate governance; and chronological records of levels of risk.

Audit Committee

KB's Audit Committee is a standing committee of the board of directors. Its purposes are manifold: (i) to protect the integrity of the financial statements and its financial reporting process; (ii) to oversee systems of internal accounting and financial controls; (iii) to carry out internal audits; (iv) to produce

Corporate Governance

independent annual audits over the financial statements—including contracts with independent auditors and evaluation of their qualifications, eligibility and performance; and (v) to ensure KB complies with legal and regulatory requirements such as its disclosure controls and procedures. The Audit Committee reports directly to the Chairman of the Board and the committee is the only one in which members are elected at the general shareholders' meeting. It consists of four non-executive and one executive director. The committee is supported by over 100 specialists, who generally commit to assisting the committee for a period of five years. At present, management must fully comply with the requests of the Audit Committee.

During 2003, the Audit Committee held a total of twelve meetings and discussed a number of crucial agenda. In the first half of the year, the committee approved the selection of independent auditors for our US GAAP financial statements and reviewed the internal accounting system for the second half of 2002. Later in the first quarter, it submitted the audit report for the fiscal year 2002 and reviewed the stock option plans. In March, the committee conveyed its opinions on the issue of appointments for the Audit Committee members of both executive and non-executive directors. The committee also deliberated the results of the US GAAP audits for the fiscal year 2002 and pertinent issues regarding the Sarbanes-Oxley Act and relevant Korean laws under amendment.

In the latter half of the year, the committee approved the selection of the firm to carry out the due diligence for the acquisition of BII, and appointed independent auditors to take care of the US GAAP financial statements for the fiscal year 2003. It also selected the independent auditors to oversee the bank and trust accounts from 2004 through 2006. In the last month, the committee approved contracts with independent auditors relating to our subsidiaries Kookmin Futures and Kookmin Investment Trust Management.

Independent Auditors

Samil Pricewaterhouse Coopers
Kukje Center Building 21st Flr.
191 Hangangro 2ga Yongsanku, Seoul 140-702, Korea
(Yongsan P.O Box 266, 140-600)
Tel: (822) 709-0800
Fax: (822) 709-0850

Compensation Committee

The Compensation Committee oversees our overall compensation strategy and ensures our executives are rewarded in a manner complying with its compensation schemes and the requirements of the appropriate regulatory bodies. The committee is also responsible for reviewing and approving executive compensation criteria and benefit plans. One of its duties is to oversee plans for the succession of new executives. The committee holds regular meetings every six months. In January, the committee members reviewed and resolved the compensation schemes for executives. In the second meeting in March, they resolved stock option plan.

Non-Executive Director Nominating Committee

The Non-Executive Director Nominating Committee is responsible for identifying individuals who are qualified as the Board members at KB, and recommends nominees for non-executive director prior to the general shareholders' meeting. The committee provides an annual review of the Board's performance and recommends candidates for non-executive directorial positions for each committee, to be later appointed by the Board. The committee also oversees the establishment of the Council for Selection of Candidates for Non-executive Directors to assist in the impartial recommendation of prospective non-executive directors.

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Management's Discussion & Analysis

December 31, 2003 and 2002

Selected Financial Data

	2003	2002 ¹⁾	2003 ²⁾	2002 ¹⁾²⁾
Financial Condition	(KRW in trillions)		(USD in billions)	
Total assets	184	183	154	152
Total liabilities	176	173	147	144
Total shareholders' equity ³⁾	8	10	7	8
Total loans	140	127	117	106
Total deposits	136	126	113	105
Operational Results	(KRW in billions)		(USD in millions)	
Interest income	5,723	4,981	4,778	4,149
Interest revenues	11,626	11,250	9,706	9,372
Interest expenses	5,903	6,269	4,928	5,222
Non-interest income	1,511	1,688	1,261	1,406
General & administrative expenses	2,704	2,665	2,258	2,220
Provision expenses	4,454	2,401	3,718	2,000
Operating income	76	1,604	63	1,336
Non-operating income	(1,223)	(271)	(1,021)	(226)
Income before income tax expenses	(1,146)	1,333	(958)	1,110
Income tax expenses	(393)	479	(328)	399
Net income	(753)	854	(629)	711
Basic earnings per share (KRW/USD)	(2,311)	4,123	(1.93)	3.43
Diluted earnings per share (KRW/USD)	(2,311)	4,123	(1.93)	3.43
Key Financial Ratios	(%)			
Return on assets (ROA)	(0.42)	0.81		
Return on equity (ROE)	(7.76)	13.04		
Net interest margin (NIM)	3.30	3.39		
Net interest spread (NIS)	3.84	3.92		
Loans to deposits	93.4	94.0		
Delinquency ratio	3.22	3.61		
Substandard & below loans ratio	3.59	3.01		
Coverage ratio	73.5	79.4		
Cost income ratio	37.9	41.7		
BIS capital adequacy ratio	10.00	10.41		

1) KB merged with Kookmin Credit Card (KCC) on September 30, 2003

The financial figures are pro-forma based records assuming that the merger with KCC occurred on September 30, 2002

2) Korean amounts are converted into US\$ 1.00 at KRW 1,200.4 and KRW 1,197.8; the effective exchange rate as of December 31, 2002 and 2003, respectively

3) Treasury stock (book value of KRW 1.3 trillion) is not included

Management's Discussion & Analysis

December 31, 2003 and 2002

EXECUTIVE SUMMARY

To counteract the heavy provisioning burden and the funding difficulties at Kookmin Credit Card (KCC), the credit card subsidiary of KB, we have merged KCC at the end of September last year into our internal BC Card operation to form KB Card. Therefore, for comparison purposes only, we have reproduced the 2002 results on a pro forma basis, assuming the merger had taken place at the end of September 2002.

In 2003, KB reported a record-level operating income before provisioning of KRW 4,530 billion, an increase of KRW 525 billion over 2002. However, our net income result was disappointing as we reported a net loss of KRW 753 billion, down from KRW 854 billion net profit in 2002. This is primarily due to the provisioning burden related to credit card asset quality deterioration, rising delinquencies in retail and SME loans due to a slowdown in macro-economic environment, as well as SK Networks and LG Card issues. Accordingly, ROA and ROE recorded -0.42% and -7.76%, respectively in 2003.

As KB continued to grow, though at a much slower pace than previous years, (inclusive of KCC merger) we recorded KRW 184 trillion in total assets, KRW 136 trillion in total deposits and KRW 140 trillion in total loans, up by KRW 1.2 trillion, KRW 9.6 trillion and KRW 13.0 trillion, respectively. Our policy in 2003 was to slowdown our loan growth and to focus on asset quality improvements.

NPL ratio rose to 3.59% in 2003 from 3.01% in 2002. Although KB implemented measures to curb the rising NPLs, the result was disappointing as the speed of NPLs build-up was fast, and additional NPLs were brought in from the KCC merger. The measures KB took to limit the rising NPLs were stringent credit discipline on new loans, an aggressive write-off policy and improving loan collection process. Loan loss reserves increased by KRW 321 billion from the previous year to reach KRW 3,712 billion. Coverage ratio, on the other hand, decreased to 73.5% in 2003 from 79.4% in 2002 due to bigger increase in substandard & below loans and aggressive write-offs.

KB's BIS capital adequacy ratio (CAR) was 10.00%, slightly down by 0.41%p from 10.41% in 2002. The Tier I and Tier II capital declined to 6.22% and 3.78% in 2003 from 6.62% and 3.79% in 2002, respectively. The fall in Tier I capital was mainly due to the treasury stock purchase of KRW 1,198 billion from the Korean government. In December 2003, the government sold all of its stake in KB and KB became fully privatized.

PROFITABILITY

KB reported a net loss of KRW 753 billion in 2003, from a net income of KRW 854 billion in 2002. The drop of KRW 1,607 billion in net income from 2002 to 2003 is primarily attributable to the KRW 4,039 billion in provision for loan losses that KB sets aside to safeguard us against potential loan losses.

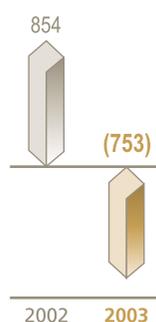
We posted interest income of KRW 5,723 billion, an increase of 14.9%, or KRW 742 billion, from KRW 4,981 billion in 2002. By contrast, non-interest income recorded KRW 1,511 billion in 2003, down by 10.5%, or KRW 177 billion, from KRW 1,688 billion in 2002, mainly due to the increase in deposit insurance premium. Operating income before provisioning rose to KRW 4,530 billion, representing a growth of 13.1%, or KRW 525 billion, from KRW 4,005 billion in 2002.

Provision expenses increased by 85.5%, or KRW 2,053 billion to KRW 4,454 billion in 2003 from KRW 2,401 billion in 2002. This was primarily due to the increased provision in credit card assets, which was KRW 2,049 billion in 2003, and represented 50.7% of provision for loan losses. Despite the increase in provisions, the coverage ratio declined by 5.9%p to 73.5% in 2003, from 79.4% in 2002, due to the higher growth of non-performing loans (NPLs) relative to provision expenses, and aggressive write-offs.

Management's Discussion & Analysis

December 31, 2003 and 2002

Net Income (KRW in billions)



The following table sets forth the information about income statements summary:

Income Statements Summary

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Interest income	5,723	4,981	14.9%
Non-interest income	1,511	1,688	(10.5%)
General & administrative expenses	2,704	2,665	1.5%
Operating income before provisioning	4,530	4,005	13.1%
Provision expenses	4,454	2,401	85.5%
<i>provision for loan losses were KRW 4,039 billion in 2003 and KRW 2,355 billion in 2002</i>			
Operating income	76	1,604	(95.3%)
Non-operating income	(1,223)	(271)	(351.3%)
Income before tax	(1,146)	1,333	(186.0%)
Income tax expenses	(393)	479	(182.0%)
Net income	(753)	854	(188.2%)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

Interest income grew by 14.9%, or KRW 742 billion, posting KRW 5,723 billion in 2003 from KRW 4,981 billion in 2002. The main reasons for the rise were interest revenues, which picked up by KRW 376 billion, and interest expenses, which were down by KRW 366 billion, as KB efficiently managed assets and liabilities to effectively cope with the volatile interest rate movement throughout the year.

Interest revenues grew by 3.3%, or KRW 376 billion to KRW 11,626 billion in 2003 from KRW 11,250 billion in 2002. The increase in interest revenues depended largely on KB's ability to grow sound assets to increase interest on loans, which accounted for 84.4% of total interest revenues. Interest revenue on loans grew by 5.2%, or KRW 485 billion to KRW 9,815 billion in 2003 from KRW 9,330 billion in 2002, while interest revenue on securities decreased slightly by 3.6%, or KRW 63 billion to KRW 1,701 billion in 2003 from KRW 1,764 billion in 2002.

Interest expenses, accounted for 38.1% of operating expenses, and totaled KRW 5,903 billion in 2003, lower than KRW 6,269 billion recorded in 2002, a drop of 5.8%, or KRW 366 billion. The decrease in interest expense on deposits, to KRW 4,280 billion in 2003 from KRW 4,771 billion in 2002, was mostly derived from our efforts on lowering the deposit interest rates aggressively. On the other hand, interest expense on debentures rose by 21.7%, or KRW 204 billion to KRW 1,143 billion in 2003 from KRW 939 billion in 2002. The higher interest expense on debentures, from 2002 to 2003, despite the lower end-balance against previous year, is attributed to the higher average balance and unstable debenture market stemming from the SK Networks turmoil and the liquidity squeeze in credit card industry. NIM (net interest margin) was down by 0.09%p to 3.30% in 2003 from 3.39% in 2002. The downturn in NIM was expected under low interest rate environment in 2003, however, KB defended NIM at the 3.30% level, lowering deposit interest rates more aggressively against the pressure of falling loan interest rates.

Management's Discussion & Analysis

December 31, 2003 and 2002

The following table sets forth the information about interest income summary:

Interest Income Summary

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Interest on loans ²⁾	9,815	9,330	5.2%
Interest on securities	1,701	1,764	(3.6%)
Interest due from banks & others	109	156	(29.9%)
Interest revenues	11,626	11,250	3.3%
Interest on deposits	4,280	4,771	(10.3%)
Interest on debentures	1,143	939	21.7%
Interest on borrowings & others	479	559	(14.2%)
Interest expenses	5,903	6,269	(5.8%)
Interest income	5,723	4,981	14.9%
Net interest margin (NIM)	3.30%	3.39%	(0.09%p)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

2) includes interest on cash advance and credit card loan

Non-interest Income

Non-interest income decreased by 10.5%, or KRW 177 billion to KRW 1,511 billion in 2003 from KRW 1,688 billion in 2002, mainly due to the decline in commissions on credit card and the increase of deposit insurance premium.

- Non-interest revenues & expenses

Income on trust account was down by 22.3%, or KRW 71 billion to KRW 248 billion from KRW 319 billion in 2002, due to the inflated income from the large-scale reversal of provision for trust assets in 2002, the drop in customer confidence in investment trust products during the SK Networks, LG Card issues, and the intensified competition with asset management companies.

Commissions on credit card decreased by 25.4%, or KRW 193 billion to KRW 568 billion in 2003 from KRW 761 billion in 2002. The decline resulted from our focus on asset quality improvement and subsequent reduction in credit card assets, given the high delinquency rate and weak domestic economy.

Commissions from NHF (National Housing Fund) management also decreased, by 10.3%, or KRW 20 billion to KRW 175 billion in 2003 from KRW 195 billion in 2002. We had anticipated the drop as KB no longer held a monopoly on the NHF activities. However, despite the new entrants in the management of NHF, we were able to sustain over 90% of the market share.

Commissions in won rose significantly by 94.9%, or KRW 282 billion to reach KRW 579 billion in 2003 from KRW 297 billion in 2002, backed by the rise in the commissions received from Lotto, bancassurance, loan prepayment fees, and by the decrease in fees paid for mortgage registration. On the other hand, commissions in foreign currencies declined by 21.4%, or KRW 12 billion to KRW 44 billion in 2003 from KRW 56 billion in 2002, reflecting the sluggishness in macro-economic environment.

Interest Income (KRW in billions)



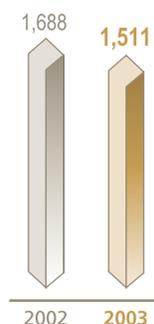
Net Interest Margin (%)



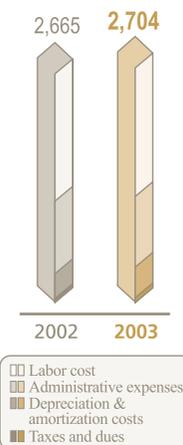
Management's Discussion & Analysis

December 31, 2003 and 2002

Non-Interest Income (KRW in billions)



General & Administrative Expenses (KRW in billions)



Cost Income Ratio (%)



The following table sets forth the information about non-interest income summary:

Non-interest Income Summary

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Income on trust account	248	319	(22.3%)
Commissions on credit card	568	761	(25.4%)
Commissions from NHF management	175	195	(10.3%)
Commissions in Won	579	297	94.9%
Commissions in foreign currencies	44	56	(21.4%)
Other non-interest income	(102)	61	(267.2%)
Gain on trading securities related	150	268	(44.0%)
Gain on trading of foreign currencies related	87	(41)	312.2%
Gain on derivatives	70	199	(64.8%)
Deposit insurance premium and others	(409)	(366)	11.7%
Non-interest income	1,511	1,688	(10.5%)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

- General & administrative expenses

In 2003, general & administrative expenses recorded KRW 2,704 billion, up by 1.5%, or KRW 39 billion, from KRW 2,665 billion in 2002. Despite the slight increase in general & administrative expenses, our cost income ratio improved by 3.8%p to 37.9%, from 41.7% in 2002. Our labor costs, including the KB's ESOP (Employee Stock Ownership Plan), rose by 4.4%, or KRW 61 billion to KRW 1,438 billion in 2003, from KRW 1,377 billion in 2002. Administrative expenses were down by 12.1%, or KRW 95 billion to KRW 693 billion in 2003 from KRW 788 billion in 2002. The decrease in administrative costs was the result of our efforts to reduce advertising costs, commissions paid and communication expenses. In addition, depreciation & amortization, and taxes & dues, increased by 14.7% (KRW 60 billion) and 15.2% (KRW 14 billion), to KRW 467 billion and KRW 106 billion in 2003 from KRW 407 billion and KRW 92 billion in 2002, respectively.

The following table sets forth the information about general & administrative expenses:

General & Administrative Expenses

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Labor cost	1,438	1,377	4.4%
Administrative expenses	693	788	(12.1%)
Depreciation & amortization costs	467	407	14.7%
Taxes & dues	106	92	15.2%
General & administrative expenses	2,704	2,665	1.5%
Cost income ratio	37.9%	41.7%	(3.8%p)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

Management's Discussion & Analysis

December 31, 2003 and 2002

Operating Income before Provisioning

Operating income before provisioning rose by 13.1%, or KRW 525 billion to KRW 4,530 billion in 2003 from KRW 4,005 billion in 2002. This was primarily driven by interest income of KRW 5,723 billion, a 14.9%, or a KRW 742 billion increase over the previous year.

- Provision expenses

Provision for loan losses grew by 71.5%, or KRW 1,684 billion, to KRW 4,039 billion in 2003 from KRW 2,355 billion in 2002. On a separate, but related note, an additional provision of KRW 1,389 billion related with the merger with KCC was reflected in non-operating income.

According to the provisioning by segments, credit card provisions increased by 30.3%, or KRW 477 billion to KRW 2,049 billion in 2003 from KRW 1,572 billion. Household provisions also rose by 54.7%, or KRW 358 billion to KRW 1,012 billion in 2003, and corporate provisions grew by 658.1%, or KRW 849 billion to KRW 978 billion in 2003. The notable acceleration in corporate provisions emanated from the additional provisioning burden for SK Networks and LG Card.

The following tables set forth the information about operating income before provisioning and provisioning by segment:

Operating Income before Provisioning

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Interest income	5,723	4,981	14.9%
Non-interest income	1,511	1,688	(10.5%)
General & administrative expenses	2,704	2,665	1.5%
Provision expenses	4,454	2,401	85.5%
(Provision for loan losses)	4,039	2,355	71.5%
Operating income	76	1,604	(95.3%)
Operating income before provisioning	4,530	4,005	13.1%

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

Provisioning by Segment

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Household	1,012	654	54.7%
Credit card	2,049	1,572	30.3%
Corporate	978	129	658.1%
Total	4,039	2,355	71.5%

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

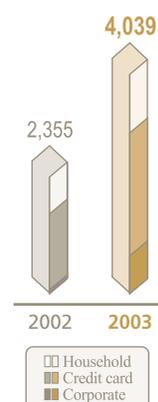
Operating Income before Provisioning

(KRW in billions)



Provisioning by Segment

(KRW in billions)



Management's Discussion & Analysis

December 31, 2003 and 2002

Non-operating Income

- Non-operating revenues & expenses

Non-operating income recorded a loss of KRW 1,223 billion in 2003 from a loss of KRW 271 billion in 2002 mainly due to merger-related expense of KRW 1,227 billion. Other non-operating expenses were mostly offset by the large increase in gain on disposition of investment securities, an increase by KRW 286 billion to KRW 497 billion from KRW 211 billion in 2002.

The following table sets forth the information about non-operating income summary:

	2003	2002 ¹⁾	Change
Gain on disposition of tangible assets	(33)	N.A.	N.A.
Gain on sales of loans	(31)	7	(542.9%)
Gain or loss on investment securities	(807)	80	(1,108.8%)
- Subsidiaries (Equity method)	(1,170)	140	(935.7%)
(KCC related)	(1,227)	220	(657.7%)
- Disposition of investment securities	497	211	135.5%
- Impairment on investment securities	(134)	(272)	50.7%
Others	(351)	(356)	1.4%
Non-operating income	(1,223)	(271)	(351.3%)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

FINANCIAL CONDITION

Loan Portfolio

As of December 31, 2003, total loans in won recorded KRW 123,715 billion, up by 6.1%, or KRW 7,098 billion, from KRW 116,617 billion in 2002. Total loans in won accounted for 88.4% of total loans, which posted at KRW 139,921 billion in 2003.

Household loans increased by 8.9%, or KRW 6,666 billion to KRW 81,151 billion in 2003 from KRW 74,485 billion in 2002, and represented 65.6% of total loans in won. Corporate loans posted a total of KRW 42,565 billion, up by 1.0%, or KRW 433 billion, from KRW 42,132 billion in 2002, and consisted of SME and large corporate loans, representing 30.9% and 3.5% of total loans in won, respectively.

In corporate loans, SME loans increased by 4.3%, or KRW 1,569 billion to KRW 38,250 billion in 2003 from KRW 36,681 in 2002. Such a slow growth was to put more efforts in asset quality improvements, and was much in line with the sluggish economy. In contrast, large corporate loans decreased to KRW 4,315 billion in 2003 from KRW 5,451 billion in 2002, as KB, being a leading retail bank, focused more on household and SME lending. Our strategy in the large corporate sector is to focus on quality corporations with positive business prospects, and to build long-lasting relationships to service its comprehensive, sophisticated financial needs in terms of capital markets and international banking activities.

Management's Discussion & Analysis

December 31, 2003 and 2002

The following table sets forth the information about loan portfolio:

Loan Portfolio

	(KRW in billions)				Change
	2003		2002 ¹⁾		
Total loans	139,921		126,731		10.4%
Loans in Won	123,715	100.0%	116,617	100.0%	6.1%
Household	81,151	65.6%	74,485	63.9%	8.9%
- Mortgage	38,324	31.0%	33,871	29.1%	13.1%
- General	42,827	34.6%	40,614	34.8%	5.4%
Corporate	42,565	34.4%	42,132	36.1%	1.0%
- SME	38,250	30.9%	36,681	31.4%	4.3%
- Large & etc.	4,315	3.5%	5,451	4.7%	(20.8%)
Loans in foreign currencies	4,020		4,417		(9.0%)
Others	12,186		5,697		107.5%

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

Deposits Composition

Total banking deposits in won recorded KRW 134,363 billion in 2003, up by 7.4%, or KRW 9,226 billion from KRW 125,137 billion in 2002. The traditional bank deposits demonstrated a stable growth. Core deposits and time & savings deposits reached KRW 43,555 billion and KRW 80,651 billion, up by 6.5% and 3.3%, from KRW 40,880 billion and KRW 78,090 billion in 2002, respectively. Marketable deposits (CD, RP, etc.) also increased substantially by 64.7%, to KRW 10,157 billion from KRW 6,167 billion in 2002, as the low interest rate environment of 2003 prompted customers to seek for more diversified deposit products.

We account for the largest share of Korea's total banking deposits, which secures KB with an advantage in low-cost funds. In 2003, we focused on further growing our deposits, which carried a lower interest rate than financial debentures; and therefore, the balance of financial debentures in won decreased to KRW 18,379 billion from KRW 22,960 billion in 2002.

The following table sets forth the information about total deposits in won:

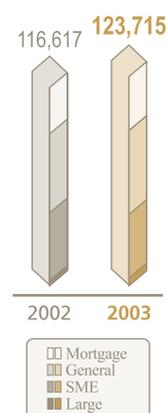
Deposits in Won

	(KRW in billions)		
	2003	2002 ¹⁾	Change
Core deposits	43,555	40,880	6.5%
Time & savings	80,651	78,090	3.3%
(Time deposits)	62,248	58,187	7.0%
CD, RP, etc.	10,157	6,167	64.7%
Deposits in Won	134,363	125,137	7.4%
Debentures in Won	18,379	22,960	(20.0%)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

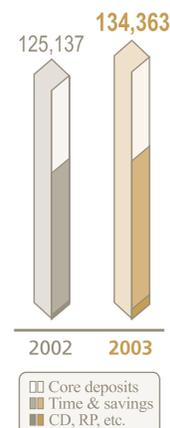
Loans in Won

(KRW in billions)



Deposits in Won

(KRW in billions)



Management's Discussion & Analysis

December 31, 2003 and 2002

CAPITAL ADEQUACY

Under the guidelines set by the Financial Supervisory Services (FSS), which introduced risk-adjusted capital standards in consideration of the policies set by the Bank for International Settlements (BIS), all banks in Korea are required to maintain a capital adequacy ratio of at least 8%, based on consolidated financial statements.

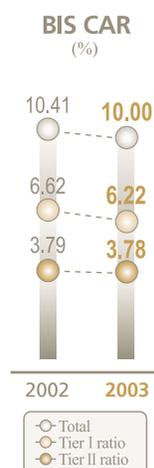
As of December 31, 2003, KB's BIS capital adequacy ratio (CAR) was 10.00%, a decrease of 0.41%p over the previous year. Despite our effort to decrease its risk weighted assets during 2003, as we purchased treasury stock of KRW 1,198 billion from the government, our Tier I and BIS capital ratio both fell. In December 2003, the government sold all of its stake in KB and KB was fully privatized. KB's risk weighted assets decreased by 8.2% to KRW 127,397 billion in 2003 from KRW 138,703 billion in 2002, and it was mainly due to the decrease of risk weighted assets in securities investments, credit card and trust businesses. The Tier I and Tier II ratios of KB dropped to 6.22% and 3.78% in 2003 from 6.62% and 3.79% in 2002.

The following table sets forth the information about BIS CAR:

BIS Capital Adequacy Ratio (CAR)

(KRW in billions)

	2003	2002	Change
Tier I	7,922	9,178	(13.7%)
Paid in capital	1,682	1,641	2.5%
Hybrid	904	0	-
Capital reserves	6,060	5,791	4.6%
Retained earnings	1,713	2,462	(30.4%)
Treasury stock	(1,328)	(149)	(991.3%)
Others	(1,108)	(568)	(295.1%)
Supplementary	5,187	5,261	(1.6%)
Revaluation reserves	177	177	-
Provisions	1,468	1,498	(2.0%)
45% of securities revaluation gain	68	81	(16.0%)
Subordinated term debt	3,034	3,127	(3.0%)
Others	439	435	0.9%
Adjusting item on Tier II capital	(369)	(58)	(736.2%)
Total BIS capital	13,109	14,439	(9.2%)
Risk weighted assets (A)	127,397	138,703	(8.2%)
Balance sheet assets	122,081	132,946	(8.2%)
Off-balance sheet assets	5,316	5,757	(7.7%)
BIS CAR			
Total	10.00%	10.41%	(0.41%p)
Tier I ratio	6.22%	6.62%	(0.40%p)
Tier II ratio	3.78%	3.79%	(0.01%p)



Management's Discussion & Analysis

December 31, 2003 and 2002

ASSET QUALITY

Along the FSS guidelines, we classify our credit exposures into five categories, which are normal, precautionary, substandard, doubtful, and estimated loss on the basis of financial transaction records, and in accordance with our management policies.

Normal loans slightly declined by 1.4%, or KRW 1,824 billion to KRW 127,905 billion in 2003 from KRW 129,729 billion in 2002. Precautionary loans edged up by 1.0%, or KRW 74 billion to KRW 7,810 billion in 2003 from KRW 7,736 billion in 2002, while substandard loans slipped down by 8.2%, or KRW 217 billion to KRW 2,427 billion in 2003 from KRW 2,644 billion in 2002. Doubtful loans and estimated loss increased by 66.0% (KRW 859 billion) and 43.4% (KRW 141 billion) to KRW 2,161 billion and KRW 466 billion in 2003 from KRW 1,302 billion and KRW 325 billion in 2002, respectively.

For substandard & below loans, there was a KRW 467 billion drop for the large corporate sector in 2003, as a result of a tighter control on the credit limits for large corporations, compared to an increase of KRW 120 billion for SME loans. Nevertheless, substandard & below loans amounted to KRW 5,053 billion and accounted for 3.59% as a percentage of total loans, a rise of 0.58%p from 3.01% in 2002 following the rising delinquencies and asset quality deterioration.

Despite the 9.5% (KRW 321 billion) increase in loan loss reserves over the previous year, NPL coverage ratio decreased to 73.5% from 79.4%, because the balance of substandard & below loans grew more than that of the loan loss reserves with an aggressive write-off policy.

The following table sets forth the information about asset quality:

Asset Quality	(KRW in billions)		
	2003	2002 ¹⁾	Change
Normal	127,905	129,729	(1.4%)
Precautionary	7,810	7,736	1.0%
Substandard	2,427	2,644	(8.2%)
Doubtful	2,161	1,302	66.0%
Estimated Loss	466	325	43.4%
Total Loans for NPL Management	140,769	141,735	(0.7%)
Substandard & below loans	5,053	4,270	18.3%
Substandard & below loans ratio (NPL ratio)	3.59%	3.01%	0.58%p
Loan loss reserves (LLR)	3,712	3,391	9.5%
LLR / Substandard & below loans (NPL coverage ratio)	73.5%	79.4%	(5.9%p)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

ASSET QUALITY – SEGMENT REVIEW

• • NPL by Segment

Household NPLs increased by 38.1%, or KRW 486 billion to KRW 1,763 billion in 2003 from KRW 1,277 billion in 2002, due to the rising household debt level and asset quality deterioration adversely affected by the sluggish economy. Credit card NPLs also increased by 86.8%, or KRW 643 billion to KRW 1,384 billion in 2003 from KRW 741 billion in 2002, as the credit card sector could no longer rely on domestic consumption for its credit quality improvements. However, corporate NPLs decreased by 15.4%, or KRW 346 billion to KRW 1,906 billion in 2003 from KRW 2,252 billion in 2002, because we actively imposed a tighter loan process control in the corporate sector.

Management's Discussion & Analysis

December 31, 2003 and 2002

• • Delinquency by Segment

Delinquent household loans increased by 15.8%, or KRW 260 billion to KRW 1,905 billion in 2003 from KRW 1,645 billion in 2002. However, delinquent credit card loans decreased by 37.1%, or KRW 740 billion to KRW 1,255 billion in 2003 from KRW 1,995 billion in 2002, and delinquent corporate loans also decreased by 5.9%, or KRW 85 billion to KRW 1,349 billion in 2003 from KRW 1,434 billion in 2002. The overall drop in the total delinquency ratio, by 0.39%p to 3.22% in 2003 from 3.61% in 2002, marked a healthy turnaround in the second half of 2003, as we actively engaged in NPL sales, write-offs, stringent loan processing and aggressive collection activities.

• • Loan Loss Reserves by Segment

KB's provisioning policies apply forward-looking criteria to recognize potential loan losses from economic and local market conditions that are beyond our control. Loan loss reserves for household loans increased by 27.6%, or KRW 293 billion to KRW 1,354 billion in 2003 from KRW 1,061 billion in 2002, and loan loss reserves for credit card loans rose by 0.9%, or KRW 11 billion to KRW 1,188 billion in 2003 from KRW 1,177 billion in 2002. Loan loss reserves for corporate loans also grew by 1.5%, or KRW 17 billion to KRW 1,170 billion in 2003 from KRW 1,153 billion in 2002.

The following table sets forth the information about NPLs, delinquencies and loan loss reserves by segments:

NPLs, Delinquencies and Loan Loss Reserves by Segments

	(KRW in billions)		
	2003	2002 ¹⁾	Change
NPLs			
Household	1,763	1,277	38.1%
Credit card	1,384	741	86.8%
Corporate	1,906	2,252	(15.4%)
Total	5,053	4,270	18.3%
Delinquent loans			
Household	1,905	1,645	15.8%
Credit card	1,255	1,995	(37.1%)
Corporate	1,349	1,434	(5.9%)
Total	4,509	5,073	(11.1%)
Loan loss reserves			
Household	1,354	1,061	27.6%
Credit card	1,188	1,177	0.9%
Corporate	1,170	1,153	1.5%
Total	3,712	3,391	9.5%
Asset quality ratios			
NPL	3.59%	3.01%	0.58%p
Delinquency ²⁾	3.22%	3.61%	(0.39%p)
LLR/NPL	73.5%	79.4%	(5.9%p)

1) Pro forma: assumes the KCC merger occurred on September 30, 2002

2) FSS Standard

Report of Independent Auditors

December 31, 2003 and 2002

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS

Samil PricewaterhouseCoopers

Kukje Center Building

191 Hankangro 2ga, Yongsanku

Seoul 140-702, KOREA

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

To the Board of Directors and Shareholders of Kookmin Bank

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

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

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

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

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

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

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

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

Report of Independent Auditors

December 31, 2003 and 2002

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

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

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

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

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 3, 2004

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

Non-Consolidated Balance Sheets

December 31, 2003 and December 31, 2002

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

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

Non-Consolidated Statements of Operations

Years ended December 31, 2003 and 2002

(in millions of Won except per share amounts)

	2003	2002
Interest Income		
Interest on due from banks	₩ 10,433	₩ 51,580
Interest on trading securities	116,142	95,576
Interest on available-for-sale securities	958,665	652,423
Interest on held-to-maturity securities	626,552	834,895
Interest on loans	9,814,835	9,251,849
Other interest income	98,923	102,735
	11,625,550	10,989,058
Interest Expenses		
Interest on deposits	4,280,290	4,770,967
Interest on borrowings	410,746	415,938
Interest on debentures	1,143,228	830,219
Other interest expenses	68,570	58,068
	5,902,834	6,075,192
Net interest income	5,722,716	4,913,866
Provision for loan losses (Note 6)	4,040,536	1,593,479
Net interest income after provision for loan losses	1,682,180	3,320,387
Non-interest Income		
Fees & commission income	1,636,171	1,345,669
Dividends on trading securities	1,633	1,123
Dividends on available-for-sale securities	5,580	12,186
Gain on foreign currency transactions	287,501	202,367
Gain on derivatives transactions (Note 15)	1,131,711	1,760,743
Others (Note 22)	868,840	1,273,355
	3,931,436	4,595,443
Non-interest Expenses		
Fees and commission expenses	270,405	330,385
General and administrative expenses (Note 23)	2,704,148	2,551,426
Loss on foreign currency transactions	200,109	245,232
Loss on derivatives transactions (Note 15)	1,053,990	1,594,025
Others (Note 22)	1,308,880	928,997
	5,537,532	5,650,065
Operating income	76,084	2,265,765
Non-operating expenses, net (Note 24)	(1,222,528)	(372,147)
Net (loss) income before income tax expense	(1,146,444)	1,893,618
Income tax (benefit) expense (Note 25)	(393,096)	583,327
Net (loss) income	₩ (753,348)	₩ 1,310,291
Basic (loss) earnings per share (In Korean Won) (Note 26)	₩ (2,311)	₩ 4,123

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

Non-Consolidated Statements of Appropriations of Retained Earnings (Dispositions of Accumulated Deficit)

Years ended December 31, 2003 and 2002

(Date of Disposition: March 23, 2004 for the year ended December 31, 2003 / Date of Appropriation: March 21, 2003 for the year ended December 31, 2002)

(in millions of Won)

	2003	2002
Retained Earnings (accumulated deficit) before Appropriations (dispositions)		
Unappropriated retained earnings carried over from prior year	₩ 410	₩ 5,117
Adjustment on investment in associates (Note 19)	(1,917)	4,562
Net income (loss)	(753,348)	1,310,291
	(754,855)	1,319,970
Transferred from Prior Years' Reserve (Note 19)		
Reserves for overseas investment losses	-	5,417
	-	5,417
Dispositions (appropriations) (Note 19)		
Transfer from (appropriations for) voluntary reserves	754,900	(867,000)
Other reserves	-	(744)
Legal reserves	-	(132,000)
Cash dividends (20.0% for common stock in 2002)	-	(325,233)
	754,900	(1,324,977)
Unappropriated Retained Earnings Carried Over to the Subsequent Year	₩ 45	₩ 410

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

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

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

Continued:

Non-Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

(in millions of Won)

	2003	2002
Cash Flows from Investing Activities		
Increase (decrease) in due from banks	₩ (1,247,467)	₩ 2,839,245
Decrease in trading securities	1,336,940	992,343
Increase (decrease) in available-for-sale securities	(1,198,423)	1,606,941
Decrease in held-to-maturity securities	5,119,423	-
Acquisition of investment in associates	(71,295)	-
Dividend from investment in associates	11,392	-
Increase in loans granted, net	(12,580,451)	(20,439,846)
Proceeds from disposal of fixed assets	101,599	14,049
Acquisition of fixed assets	(316,890)	(578,828)
Acquisition of intangible assets	(705)	(502)
Proceeds from disposal of foreclosed assets	162	978
Acquisition of foreclosed assets	(166)	-
Increase in guarantee deposits	(8,865)	(56,619)
Decrease (increase) in other accounts receivable	166,101	(338,569)
Increase (decrease) in payments in advance	(28,328)	55,723
Decrease in derivative assets, net	145,924	67,591
Collection of domestic exchange receivables	474,995	403,014
Collection of loans to trust accounts	37,882	229,452
Net cash used in investing activities	(8,058,172)	(15,205,028)
Cash Flows from Financing Activities		
Increase in deposits, net	9,076,415	7,948,349
Decrease in borrowings, net	(2,248,706)	(2,846,629)
Decrease (increase) in debentures, net	(3,278,588)	8,697,080
Increase (decrease) in borrowings from trust accounts	3,248,649	(931,874)
Decrease in dividend payable	(325,188)	(29,967)
Decrease (increase) in other accounts payable	(273,080)	499,769
Increase (decrease) in advances received from customers	19,325	(57,825)
Decrease in guarantee deposits received	(623)	(41,516)
Decrease in domestic exchange payables	(173,865)	(901,723)
Decrease in liabilities incurred by agency relationships	(171,172)	(219,313)
Stock options exercised	(35)	(26,741)
Acquisition of treasury stock	(1,227,876)	(149,704)
Sale of treasury stock	826	1,928
Increase in stock issuance cost	(212)	(737)
Net cash provided by financing activities	4,645,870	11,941,097
Net increase (decrease) in cash and cash equivalents	637,833	(72,735)
Increase due to merger	33,343	-
Cash and cash equivalents, Beginning of year	3,100,581	3,173,316
End of year (Note 34)	₩ 3,771,757	₩ 3,100,581

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

1. THE BANK

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statement Presentation

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

Accounting Estimates

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

Application of the Statements of Korean Financial Accounting Standards

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

Recognition of Interest Income

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

Securities

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

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

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

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

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

Investments in Associates

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

Deferred Loan Origination Fees and Costs

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

Allowances for Loan Losses

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

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

Credit Risk Classification	Credit Ratings	Allowance Rates
Normal	AAA~B	0.50%
Precautionary	B~CCC	2.00%
Substandard	CC	20.00%
Doubtful	C	50.00%
Estimated loss	D	100.00%

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

Credit Risk Classification	Allowance Rates before Changes	Allowance Rates after Changes	
		Consumer	Credit Card
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%

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

Present Value Discounts

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

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

Fixed Assets and Related Depreciation

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

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

Tangible Assets	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4-5 years
Equipment and vehicles	Declining balance method	4-5 years

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

Intangible Assets	Amortization Method	Estimated Useful Life
Goodwill	Straight-line method	9 years
Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	5-30 years

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

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

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

Stock Issuance Costs and Debenture Issuance Costs

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

Accrued Retirement Benefits

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

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

Deferred Income Taxes

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

Bonds under Repurchase/Resale Agreements

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

Derivative Instruments

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

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

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

Stock Options

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

National Housing Fund

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

Gains and Losses on Trust Management

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

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

Foreign Currency Translation

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

Statement of Cash Flows

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

Application of Korean Financial Accounting Standard No. 6

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

3. CASH AND DUE FROM BANKS

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

		(in millions of Won)	
		2003	2002
Cash on hand			
Cash in Won		₩ 2,945,921	₩ 2,392,346
Cash in foreign currencies		228,153	186,780
		3,174,074	2,579,126
Due from banks in Won			
Bank of Korea	Reserve deposits in the Bank of Korea	2,612,248	1,340,482
Other banks	Time deposits	810	41,192
	Passbook deposits	8,185	392
		8,995	41,584
Other financial institutions	Deposits at Mutual Savings	140,000	140,000
Others	Futures margin accounts	1,560	1,336
	Market participation margin	454	458
	KOSPI futures margin accounts	200	-
	Other deposits	-	8,319
		2,214	10,113
		2,763,457	1,532,179
	Present value discounts ^{1*}	(12,810)	(21,156)
		2,750,647	1,511,023
Due from banks in foreign currencies			
Bank of Korea	Demand deposits	12,415	25,677
Other banks	Demand deposits	71,879	104,073
	Time deposits	-	15,193
		71,879	119,266
Off-shore	Demand deposits	3,354	5,064
Others	Other deposits	513,976	359,200
		601,624	509,207
		₩ 6,526,345	₩ 4,599,356

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

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

(in millions of Won)

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

4. SECURITIES

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

(in millions of Won)

	2003	2002
Trading	₩ 4,482,948	₩ 5,676,973
Available-for-sale	17,088,357	13,173,700
Held-to-maturity	5,979,341	10,986,915
Investment in associates	551,199	1,103,162
	₩ 28,101,845	₩ 30,940,750

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

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

(in millions of Won)

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

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

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

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

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

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

(in millions of Won)

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

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

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

(in millions of Won)

Domestic Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance ^{1*}	Equity Method ^{2*}			Book Value	
				N/I	R/E	C/A	2003	2002
Kookmin Credit Card ^{3*}	74.27	₩ 272,274	₩ 681,960	₩ 211,202	₩ -	₩ -	₩ -	₩ 681,960
KB Investment	99.89	155,311	67,289	5,295	(2,334)	7,023	77,273	67,289
Kookmin Data Systems	99.98	7,998	13,616	1,031	-	-	14,647	14,416
Kookmin Futures	99.98	19,996	24,093	1,428	-	-	25,521	25,092
KLB Securities	36.41	10,316	-	-	-	-	-	-
KB Investment Trust Mgt.	80.00	39,015	36,667	8,336	-	48	45,051	45,868
Jooeun Industrial	99.99	23,994	-	-	-	-	-	-
KB Real Estate Trust	99.99	76,103	87,727	10,402	(336)	336	98,129	87,727
KB Credit Information	66.34	8,444	9,106	2,746	-	11	11,863	8,991
ING Life Korea	20.00	21,769	21,613	22,278	-	(46)	43,845	21,613
Korea Mortgage	26.67	30,629	33,566	2,475	(57)	(196)	35,788	33,566
		₩ 665,849	₩ 975,637	₩ 265,193	₩ (2,727)	₩ 7,176	₩ 352,117	₩ 986,522

Continued;

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

Foreign Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance ^{1*}	Equity Method ^{2*}			Book Value	
				N/I	R/E	C/A	2003	2002
KB Int'l Ltd. (London)	100.00	₩ 42,585	₩ 52,803	₩ 3,264	₩ -	₩ 688	₩ 56,755	₩ 47,739
KB Luxembourg S.A	100.00	26,295	6,102	(1,275)	-	1,123	5,950	5,106
Kookmin Singapore Ltd.	100.00	14,096	2,080	-	-	-	2,080	2,084
Kookmin Finance Asia Ltd.	100.00	8,385	279	7	-	-	286	279
Kookmin Finance HK Ltd.	100.00	23,956	61,299	681	-	736	62,716	61,432
Sorak Financial Holdings	25.00	71,295	71,295	-	-	-	71,295	-
		186,612	193,858	2,677	-	2,547	199,082	116,640
		₩ 852,461	₩ 1,169,495	₩ 267,870	₩ (2,727)	₩ 9,723	₩ 551,199	₩ 1,103,162

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

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

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

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

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

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

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

(in millions of Won)

Maturities	Available-for-Sale		Held-to-Maturity	
	Book Value	Fair Value	Book Value	Fair Value
Due in 1 year or less	₩ 9,622,944	₩ 9,622,944	₩ 1,815,377	₩ 1,827,931
Due after 1 year through 5 years	6,534,806	6,534,806	3,911,985	4,043,934
Due after 5 years through 10 years	445,043	445,043	251,979	267,579
Thereafter	14,901	14,901	-	-
	₩ 16,617,694	₩ 16,617,694	₩ 5,979,341	₩ 6,139,444

Investment securities risk concentrations as of December 31, 2003 and 2002 are as follows:

(in millions of Won)

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

(in millions of Won)

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Acquisition Cost	Net Asset Value ^{1*}	Book Value
Korea Housing Guarantee Co., Ltd.	₩ 68,648	₩ 119,991	₩ 68,648
Dongbu Electronics Co., Ltd.	30,000	22,059	22,059
Mastercard, Inc.	11,118	6,524	11,118
The Korea Securities Finance Corp.	8,160	11,003	8,160
Asia Credit	11,978	8,014	8,014
Korea Asset Management Corp.	7,827	12,436	7,827
Samsung Life Insurance Co., Ltd.	7,479	9,062	7,479
Daewoo Electronics Corp.	9,862	7,293	7,109
Korea Highway Corp.	6,248	5,892	6,248
BC Card Co., Ltd.	5,738	7,630	5,738
Daewoo Motor Co., Ltd.	5,633	11,768	5,633
E Mirae Asset Securities Co., Ltd.	5,000	8,302	5,000
Hanwha Investment Trust Management Co., Ltd.	3,487	3,503	3,487
Korea Vilene Co., Ltd.	3,000	3,662	3,000
Hyundai Home Shopping Network Corp.	2,680	915	2,680
National Information & Credit Evaluation, Inc.	2,668	4,209	2,668
Nanjing Kumho Tire Co., Ltd.	2,548	2,678	2,548
Baring Communication	5,588	2,282	2,282
Korea Digital Satellite Broadcasting Co., Ltd.	2,157	550	2,157
Kyobo Investment Trust Management Co., Ltd.	2,100	3,417	2,100
Others	90,866	67,123	38,235
	₩ 292,785	₩ 318,313	₩ 222,190

^{1*} Net asset values are calculated using the unaudited financial statements of the investees as of December 31, 2003 when available, otherwise, the most recent financial information is used.

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

5. LOANS

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

		(in millions of Won)	
		2003	2002
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	₩ 28,884,554	₩ 28,904,621
	Notes discounted	1,415,445	1,851,133
	Overdraft accounts	447,992	568,702
	Trading notes	809,921	814,759
	Other operation loans	3,793,594	3,229,851
		35,351,506	35,369,066
	Facility loans		
	General facility loans	5,413,333	4,676,506
	Other facility loans	1,218,370	1,287,125
		6,631,703	5,963,631
		41,983,209	41,332,697
Consumer loans	General consumer loans	41,951,219	39,713,543
	Consumer housing loans	38,199,290	33,731,435
	Remunerations on mutual installment savings	297,868	131,768
	Other consumer loans	635,218	632,172
		81,083,595	74,208,918
Public loans	Public operation loans	526,227	738,632
	Public facility loans	42,473	39,414
		568,700	778,046
Other loans	Property formation loans	62,963	95,252
	Inter-bank loans	12,815	20,941
	Others	3,962	5,449
		79,740	121,642
		123,715,244	116,441,303
Loans in foreign currencies			
	Domestic funding loans	1,165,988	1,052,800
	Overseas funding loans	887,018	933,010
	Inter-bank loans	767,884	1,094,119
	Domestic usance bills	1,197,563	1,334,006
	Government funding loans	1,477	3,241
		4,019,930	4,417,176
Call loans			
	In Won	1,640,000	33,600
	In foreign currencies	5,351	248,857
	Inter-bank reconciliation funds	-	89,287
		1,645,351	371,744
Privately placed debentures		1,787,131	1,276,080
Other loans		12,457,419	6,633,396
Allowances for loan losses (Note 6)		(3,690,341)	(2,378,696)
Present value discounts		(22,780)	(30,442)
Net deferred loan origination fees and costs		8,567	-
		₩ 139,920,521	₩ 126,730,561

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

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

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

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

(in millions of Won)

	WACC (%)	Beginning Balance	Increase	Decrease	Ending Balance
Present value discounts	6.10 - 17.00	₩ (30,442)	₩ (11,767)	₩ (19,429)	₩ (22,780)
Deferred loan incidental income		-	9,161	594	8,567
		₩ (30,442)	₩ (2,606)	₩ (18,835)	₩ (14,213)

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

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

(in millions of Won)

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

6. ALLOWANCES FOR LOAN LOSSES

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Balance	₩ 114,948,955	₩ 5,342,015	₩ 2,264,071	₩ 935,330	₩ 206,411	₩ 123,696,782
	Allowances	773,958	297,883	491,148	501,798	206,411	2,271,198
	Ratio (%)	0.67	5.58	21.69	53.65	100.00	1.84
Loans in foreign currencies	Balance	3,681,484	263,168	40,037	31,500	803	4,016,992
	Allowances	14,568	17,072	16,252	19,350	803	68,045
	Ratio (%)	0.40	6.49	40.59	61.43	100.00	1.69
Bills bought	Balance	507,729	54,354	1,850	3,030	3,757	570,720
	Allowances	2,539	8,687	430	1,515	3,757	16,928
	Ratio (%)	0.50	15.98	23.24	50.00	100.00	2.97
Payments on guarantees	Balance	42,754	6,347	19,539	10,903	9,896	89,439
	Allowances	214	498	3,908	5,451	9,896	19,967
	Ratio (%)	0.50	7.85	20.00	50.00	100.00	22.32
Credit card accounts	Balance	7,239,554	1,626,508	400	1,158,525	224,844	10,249,831
	Allowances	72,396	195,181	80	695,115	224,844	1,187,616
	Ratio (%)	1.00	12.00	20.00	60.00	100.00	11.59
Bonds purchased under resale agreements	Balance	1,500,000	-	-	-	-	1,500,000
	Allowances	-	-	-	-	-	-
	Ratio (%)	0.00	0.00	0.00	0.00	0.00	0.00
Call loans	Balance	1,645,351	-	-	-	-	1,645,351
	Allowances	-	-	-	-	-	-
	Ratio (%)	0.00	0.00	0.00	0.00	0.00	0.00
Privately placed debentures	Balance	1,363,209	409,352	7,555	6,811	168	1,787,095
	Allowances	6,816	75,048	2,064	3,417	168	87,513
	Ratio (%)	0.50	18.33	27.32	50.17	100.00	4.90
Factoring receivables	Balance	29,685	-	-	125	16,275	46,085
	Allowances	148	-	-	63	16,275	16,486
	Ratio (%)	0.50	0.00	0.00	50.40	100.00	35.77
Total	Balance ^{1*}	₩ 130,958,721	₩ 7,701,744	₩ 2,333,452	₩ 2,146,224	₩ 462,154	₩ 143,602,295
	Allowances ^{2*}	870,639	594,369	513,882	1,226,709	462,154	3,667,753
	Ratio (%)	0.66	7.72	22.02	57.16	100.00	2.55

1* The above amounts of loan balances are net of present value discounts.

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

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

	2003	2002	2001
Loans ^{1*}	₩ 143,602,295	₩ 129,109,257	₩ 109,301,138
Allowances for loan losses ^{2*}	3,667,753	2,365,715	2,235,801
Ratio (%)	2.55	1.83	2.05

1* The above amounts of loans are net of present value discounts.

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

7. FIXED ASSETS

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

	2003	2002
Tangible assets	₩ 2,469,353	₩ 2,477,147
Intangible assets	549,427	614,457
Foreclosed and other properties	776	1,012
	₩ 3,019,556	₩ 3,092,616

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Land	Buildings and Structures	Leasehold Improvement	Equipment and Vehicle	Construction in-Progress	Total
Acquisition cost						
Beginning balances	₩ 1,175,682	₩ 848,746	₩ 98,117	₩ 1,043,969	₩ 1,195	₩ 3,167,709
Acquisition	3,350	8,898	6,898	201,254	97,112	317,512
Transfer	-	37,466	48,517	-	(85,983)	-
Increase due to merger	55,529	71,024	4,805	263,897	-	395,255
Disposal	(128,692)	(2,838)	(1,106)	(60,058)	-	(192,694)
Ending balances	1,105,869	963,296	157,231	1,449,062	12,324	3,687,782
Accumulated depreciation						
Beginning balances	-	108,723	48,164	533,675	-	690,562
Depreciation expense	-	20,583	40,594	326,248	-	387,425
Increase due to merger	-	12,976	2,786	160,380	-	176,142
Disposal	-	(179)	(736)	(57,013)	-	(57,928)
Ending balances	-	142,103	90,808	963,290	-	1,196,201
Impairment	-	22,228	-	-	-	22,228
Book Value	₩ 1,105,869	₩ 798,965	₩ 66,423	₩ 485,772	₩ 12,324	₩ 2,469,353

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

(in millions of Won)

	Amount Insured	Insurance Company	Type of Insurance
Buildings and structures	₩ 655,890	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Leasehold improvement	52,612	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Equipment and vehicles	274,671	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Construction in-progress	9,860	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
	₩ 993,033		

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

(in millions of Won)

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	2003		2002	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	₩ 1,105,869	₩ 986,382	₩ 1,175,681	₩ 986,885
Lands included in foreclosed assets	1,315	591	1,923	931
	₩ 1,107,184	₩ 986,973	₩ 1,177,604	₩ 987,816

8. OTHER ASSETS

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

9. DEPOSITS

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

(in millions of Won)

	Annual Interest (%) December 31, 2003	2003	2002
Deposits in Won			
Demand deposits			
- Checking deposits	-	₩ 125,533	₩ 134,222
- Household checking deposits	0.10	476,132	469,866
- Passbook deposits	0.10	10,001,043	8,586,219
- Temporary deposits	-	3,292,770	3,577,243
- Public fund deposits	0.10	190,593	207,695
- Others	0.10	24,218	12,497
		14,110,289	12,987,742
Time deposits and savings deposits			
- Time deposits	2.90 - 4.40	62,247,870	58,187,286
- Installment savings deposits	3.60 - 4.30	1,306,793	1,422,532
- Property formation savings	8.50	1,870	2,221
- Time and savings deposits of non-residents in Won	2.90 - 4.40	340,388	151,124
- General savings deposits	0.10 - 3.30	21,644,066	21,346,223
- Corporate free savings deposits	0.10 - 3.20	7,800,122	6,556,979
- Long-term savings deposits for workers	8.79	69,031	297,272
- Long-term housing savings deposits	5.00	983,684	538,782
- Long-term savings for households	4.89	494,606	2,250,457
- Worker's preferential savings deposits	5.35	2,728,236	2,877,467
- Worker's savings for housing	2.50	81	79
- Mutual installment deposits	3.20 - 4.50	7,054,752	7,491,115
- Mutual installment for housing	2.95 - 4.30	5,423,853	4,872,637
		110,095,352	105,994,174
		124,205,641	118,981,916
Deposits in foreign currencies			
Demand deposits			
- Checking deposits	0.00 - 1.32	40,778	29,629
- Passbook deposits	0.08 - 0.11	787,798	549,646
- Notice deposits	0.00 - 0.22	410	2,725
- Temporary deposits	-	1,049	3,796
		830,035	585,796
Time deposits and savings deposits			
- Time deposits	0.16 - 1.57	642,039	496,359
- Others	0.00 - 4.45	3,299	1,493
		645,338	497,852
		1,475,373	1,083,648
Certificates of deposit	3.45 - 3.95	6,499,258	3,044,089
		₩ 132,180,272	₩ 123,109,653

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

10. BORROWINGS

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

	Annual Interest (%) December 31, 2003	(in millions of Won)	
		2003	2002
Borrowings in Won			
Borrowings from the Bank of Korea	2.50	₩ 992,433	₩ 671,854
Borrowings from the government	0.00 - 8.00	920,589	1,056,480
Borrowings from banking institutions	3.54 - 8.55	253,822	318,702
Borrowings from National Housing Fund	8.00	8,553	9,192
Borrowings from other financial institutions	2.00 - 5.00	5,688	6,211
Other borrowings	2.00 - 7.00	1,173,284	1,129,305
		3,354,369	3,191,744
Borrowings in foreign currencies			
Due to banks	-	189,976	528,991
Borrowings from domestic banks	0.09 - 7.40	2,360,652	1,875,119
Borrowings from other financial institutions	5.13	19,486	23,092
Borrowings from foreign banks	-	752,803	981,328
		3,322,917	3,408,530
Bonds sold under repurchase agreements			
In Won	2.50 - 4.10	3,613,505	3,050,179
In foreign currencies	1.54	9,651	23,982
		3,623,156	3,074,161
Bills sold	3.40 - 3.85	44,239	72,860
Due to the Bank of Korea in foreign currencies	-	12,608	37,493
Call money			
In Won	3.25 - 3.40	55,800	829,300
In foreign currencies	0.88 - 5.15	193,700	76,666
Inter-bank borrowings	-	296,011	-
		545,511	905,966
		₩ 10,902,800	₩ 10,690,754

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

11. DEBENTURES

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

(in millions of Won)

		Annual Interest (%) December 31, 2003	2003	2002
In Won	Hybrid debentures	6.00 - 7.00	₩ 903,668	₩ -
	Subordinated fixed rate debentures	6.07 - 15.66	4,896,072	4,753,285
	Fixed rate debentures	2.25 - 8.15	3,970,000	-
	Floating rates debentures	3.92 - 8.71	8,609,663	12,269,023
			18,379,403	17,022,308
	Discounts on debentures		(83,443)	(270,924)
			18,295,960	16,751,384
In foreign currencies	Floating rates debentures	0.60 - 1.99	196,211	350,589
	Fixed rates debentures	1.08 - 4.63	613,549	438,538
		1.82 - 1.92	78,695	-
			888,455	789,127
		Premiums on debentures		9,639
	Discounts on debentures		(1,473)	(1,504)
			896,621	787,623
			₩ 19,192,581	₩ 17,539,007

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in hundred millions of Won)				
Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	97.12.29 - 98.8.27	₩ 2,653	15.02 - 16.00	03.01.27 - 09.11.15
	2000.03.27	2,000	9.65	2005.03.27
	2000.06.28	2,540	9.04 - 9.10	2006.01.28
	2000.09.27	3,000	8.99	2006.01.27
	2000.09.28	1,500	8.79 - 8.85	2006.01.28
	2000.11.28	1,000	8.65 - 8.71	2006.02.28
	2000.11.28	1,620	9.57 - 9.65	2010.11.28
	2000.12.27	2,000	8.71	2006.01.27
	2001.05.28	2,000	7.60 - 7.65	2007.02.28
	2001.06.27	1,600	7.68	2008.03.27
	2001.06.27	2,175	7.86	2009.03.27
	2001.08.28	1,000	6.69 - 6.73	2007.08.28
	2001.09.28	1,500	6.69 - 6.73	2008.03.28
	2002.03.27	2,417	7.06 - 7.10	2008.01.27
	2002.07.27	3,024	6.96 - 7.00	2008.01.27
	2002.09.27	2,574	6.27 - 6.30	2008.03.27
	2002.09.27	1,500	6.51 - 6.55	2010.03.27
	2002.09.27	926	6.66 - 6.70	2013.03.27
	2002.11.27	4,007	6.07 - 6.10	2008.05.27
	2002.11.27	578	6.27 - 6.30	2010.05.27
	2002.11.27	1,003	6.51 - 6.55	2013.05.27
	2002.12.18	1,100	8.00	2008.01.18
	2002.12.27	304	6.55	2014.12.27
	2002.12.27	100	6.20	2008.06.27
	2002.12.27	900	6.40	2010.06.27
	2002.12.27	500	6.65	2013.06.27
	2003.01.21	500	7.65	2008.02.21
	2003.03.10	450	7.10	2008.04.10
	2003.10.27	3,565	5.18 - 5.20	2009.01.27
	2003.10.27	888	5.33 - 5.35	2011.01.27
	2003.10.27	37	5.58 - 5.60	2014.01.27
			48,961	
Hybrid debentures	2003.06.27	1,051	6.00	2033.06.27
	2003.08.27	5,334	7.00	2033.08.27
	2003.10.27	2,652	6.80	2033.10.27
		9,037		
		₩ 57,998		

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

12. ACCRUED RETIREMENT BENEFITS

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

(in millions of Won)

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

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

13. OTHER LIABILITIES

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

(in millions of Won)

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

^{1*} Other allowances are as follows:

(Continued;)

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

Allowances for	Amounts	Remarks
Suspense receivables	₩ 7,249	Allowances for frauds/accidents and litigation fee
Loss on branch closure	287	Allowances for closure of the Buenos Aires branch
Uncollected leasehold deposits	8,854	Allowances for uncollected leasehold deposits
Credit card receivables	33,105	Allowances for unused cash advance credit lines
Mileage rewards	37,938	Allowances for mileage on credit cards and currency exchange rates
Claimed assets	27,291	Allowances for credit card claimed assets
Credit commitments to SPC	141,175	Allowances for the credit line commitment to SPC (Note 16)
Securitization allowances	19,284	Allowances for repurchase obligations from asset securitization (Note 16)
KAMCO loans sold	589	Allowances for loans under repurchase agreements to KAMCO (Note 16)
Supplementary payments for income taxes	142,021	Allowances for supplementary payments for income taxes (Note 16)
Others	229,600	
	₩ 647,393	

14. GUARANTEES AND ACCEPTANCES

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

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

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

(in millions of Won)

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

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

(in millions of Won)

	2003	2002	2001
Guarantees and acceptances outstanding	₩ 800,297	₩ 1,031,698	₩ 3,521,970
Allowance	1,074	2,287	43,823
Ratio (%)	0.13	0.22	1.24

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	₩ 279,431	34.92	₩ 726,023	56.65	₩ 1,005,454	48.30
Service	436,908	54.59	477,938	37.29	914,846	43.94
Finance	56,912	7.11	472	0.04	57,384	2.76
Others	27,046	3.38	77,085	6.02	104,131	5.00
	₩ 800,297	100.00	₩ 1,281,518	100.00	₩ 2,081,815	100.00

15. DERIVATIVES

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

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

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

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

(in millions of Won)

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

		(in millions of Won)
		Amount
Gain on derivatives		
Gain on derivatives transactions		₩ 1,131,711
Gain on valuation of derivatives		400,397
Gain on fair value hedged items		10,715
		₩ 1,542,823
Loss on derivatives		
Loss on derivatives transactions		₩ 1,053,990
Loss on valuation of derivatives		419,185
Loss on fair value hedged items		-
		₩ 1,473,175

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

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
- Option	₩ 2,982	₩ -	₩ 2,982	₩ 10,178	₩ -	₩ 10,178	₩ 6,487	₩ 13,942
- Swap	97,875	-	97,875	81,785	10,715	92,500	142,201	228,885
	100,857	-	100,857	91,963	10,715	102,678	148,688	242,827
Currency related								
- Forward	149,056	-	149,056	156,773	-	156,773	152,104	178,064
- Option bought	94	-	94	-	-	-	94	-
- Option sold	358	-	358	581	-	581	130	615
- Swap	31,005	-	31,005	50,423	-	50,423	258,136	82,827
	180,513	-	180,513	207,777	-	207,777	410,464	261,506
Stock related								
- Option bought	105,536	-	105,536	15,184	-	15,184	192,100	-
- Option sold	13,491	-	13,491	93,546	-	93,546	-	181,938
	119,027	-	119,027	108,730	-	108,730	192,100	181,938
	₩ 400,397	₩ -	₩ 400,397	₩ 408,470	₩ 10,715	₩ 419,185	₩ 751,252	₩ 686,271

16. COMMITMENTS AND CONTINGENCIES

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

1* The Bank (partially) won the case.

2* The Bank partially lost the case.

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

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

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

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

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

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

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

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

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

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

17. CAPITAL

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

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

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

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

18. CAPITAL SURPLUS

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

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

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

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

19. RETAINED EARNINGS

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

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

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

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

20. CAPITAL ADJUSTMENTS

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

	(in millions of Won)			
	Beginning Balance	Increase	Decrease	Ending Balance
Treasury stock	₩ (148,973)	₩ (1,227,876)	₩ (48,537)	₩ (1,328,312)
Unrealized gain on available-for-sale securities	180,449	87,488	129,950	137,987
Unrealized gain on investment in associates	94,773	9,723	99,872	4,624
Stock options	-	26,211	-	26,211
Loss on disposal of treasury stock	-	(749)	-	(749)
	₩ 126,249	₩ (1,105,203)	₩ 181,285	₩ (1,160,239)

The Bank, with the approval of the Board of Directors on July 26, 2002, established an employee stock option plan for the welfare of the employees and purchased 3,000,000 shares of treasury stock under the plan. During the year ended December 31, 2003, the Bank contributed 1,000,000 shares to the Employee Stock Ownership Association.

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

21. EMPLOYEE STOCK OPTIONS

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

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

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

2* The exercise price may be affected by the fluctuations in the stock price index of the banking industry.

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

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

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

Series	Stock Price as of Grant Date (Won)	Risk Free Interest Rate ^{1*} (%)	Expected Exercise Period (Years) ^{2*}	Volatility of Underlying Stock Price ^{3*} (%)	Expected Dividend Rate ^{4*} (%)	Compensation Cost (Won)
Series 1	₩ 21,441	9.32	4.00	71.14	2.25	₩ 12,638
Series 2	25,156	6.06	5.50	70.30	2.47	15,987
Series 3	5,430	9.74	3.00	59.06	1.14	1,395
Series 4 ^{5*}	33,750	4.74	0.33	73.30	1.93	19,850
Series 5 ^{5*}	33,750	4.74	1.33	73.30	1.93	13,320
Series 6 ^{5*}	33,750	4.74	2.42	73.30	1.93	17,117
Series 7	45,800	4.91	3.00	58.90	-	18,364
Series 8-1	58,000	6.14	3.00	53.56	-	24,496
Series 8-2	58,000	6.14	3.00	53.56	-	24,496
Series 9	53,900	5.73	3.00	43.09	-	17,333
Series 10-1	36,500	4.74	3.00	48.77	-	12,204
Series 10-2	36,500	4.74	3.00	48.77	-	14,073
Series 11	41,100	5.75	3.00	44.48	-	15,098
Increase due to merger-1	27,200	5.17	3.00	46.02	-	8,447
Increase due to merger-2	55,900	6.39	2.00	49.24	20	6,536

1* Interest rate of government bond as of grant date.

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

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

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

5* Compensation costs were recalculated to reflect the effects of merger with H&CB.

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

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

22. OTHER NON-INTEREST INCOME (EXPENSES)

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

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

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23. GENERAL AND ADMINISTRATIVE EXPENSES

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

	(in millions of Won)
	Amount
Salaries and wages	₩ 1,149,816
Retirement benefits (Note 12)	109,766
Other employee benefits	317,550
Rent	65,046
Depreciation	387,425
Amortization	79,431
Taxes and dues	125,717
Advertising	67,317
Ordinary R&D	106,844
Fees and commissions	87,690
Others	207,546
	₩ 2,704,148

24. NON-OPERATING INCOME (EXPENSES)

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

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

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December 31, 2003 and 2002

25. INCOME TAX EXPENSE

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

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

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

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

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

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

Notes to Non-Consolidated Financial Statements

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

(in millions of Won)

	Beginning Balance	Increase Due to Merger	Increase	Decrease	Ending Balance	Deferred Tax Asset (Liability)
Allowance for loan losses	₩ 314,081	₩ -	₩ 221,016	₩ 236,074	₩ 299,023	₩ 87,094
Accrued interest	(350,798)	(60,931)	(349,915)	(412,209)	(349,435)	(96,095)
Unrealized loss on securities	602,646	4,456	(175,092)	(330,256)	762,266	212,255
Unrealized loss on derivatives	(100,086)	(3,530)	(35,045)	(103,616)	(35,045)	(9,637)
Present value discounts	28,001	-	14,691	27,918	14,774	4,270
Allowance for losses on guarantees and acceptances	5,278	-	1,074	5,278	1,074	295
Accrued severance benefits	-	-	(14,500)	(14,500)	-	-
Stock options	10,116	552	26,211	10,668	26,211	7,208
Loss on fair value hedges	-	-	(10,715)	(9,213)	(1,502)	(413)
Accumulated depreciation	820	-	16,406	8,913	8,313	2,286
Other allowances	48,876	-	505,372	48,876	505,372	144,029
Others	15,559	1,209	99,847	12,144	104,471	28,748
Net operating loss carry-forward	-	-	567,825	-	567,825	168,645
	₩ 574,493	₩ (58,244)	₩ 867,175	₩ (519,923)	₩ 1,903,347	₩ 548,685
Deferred tax credit						3,951
						₩ 552,636

26. EARNINGS (LOSS) PER SHARE

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

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

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

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

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

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

	Exercise Period	Shares Outstanding	Exercise Price
Stock options	2001.11.01 - 2011.08.27	2,248,554	₩5,000 - ₩129,100

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27. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES:

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

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

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

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

28. RELATED PARTY TRANSACTIONS

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

(in millions of Won)

Account	2003		2002		
	Balances	Transactions	Balances	Transactions	
KB Investment Co., Ltd.	Loans	-	-	4,115	
	Deposits	9,624	(484)	16,142	(1,025)
	Other liabilities	191	-	-	
Kookmin Data System Corp.	Other assets	34	-	-	
	Deposits	5,582	(265)	6,903	(187)
	Other liabilities	2,832	(15,925)	879	-
	Commissions income	-	53	-	-
Kookmin Futures Co., Ltd.	Due from banks	40	3	379	5
	Other assets	26	77	-	-
	Deposits	9,793	(497)	18,860	(567)
	Other liabilities	1,663	620	-	
	Commissions income	-	9	-	-
	Commissions expenses	-	(187)	-	-
KB Luxembourg S.A.	Due from banks	51,784	2,215	48,337	148
	Loans	76,659	739	139,702	4,789
	Other assets	176	2,900	815	3,131
	Borrowings	140,880	(193)	177,873	(80)
	Other liabilities	-	(1,352)	11,077	(922)
KB International Ltd. (London)	Due from banks	33,754	904	24,490	70
	Loans	95,824	1,765	186,062	3,576
	Other assets	405	477	-	359
	Borrowings	108,272	(501)	198,663	(308)
	Other liabilities	1,203	(4,011)	13,245	(2,691)
	Commissions expenses	-	(1,398)	-	-
Kookmin Finance H.K. Ltd.	Due from banks	372	857	6,318	22
	Loans	98,579	1,802	175,850	4,721
	Other assets	152	109	-	-
	Borrowings	173,121	(4)	159,715	(161)
	Other liabilities	-	-	5,424	(232)
	Commissions expenses	-	(1,777)	-	-
Kookmin Investment Trust Mgt.	Deposits	46,244	(1,250)	1,348	(802)
	Other liabilities	234	(5)	-	-
KB Real Estate Co., Ltd.	Loans	25,000	2,578	30,000	3,005
	Deposits	1,838	(27)	104,754	(4)
	Other liabilities	1,755	-	1,782	-
Joeun Industrial Co., Ltd.	Loans	139,425	-	-	-
KB Credit Information Co., Ltd.	Deposits	11,446	(457)	9,496	(444)
	Other liabilities	8,482	-	5,388	176
	Commissions expenses	-	(38,481)	-	(26,894)
	Rent	-	-	-	-

Notes to Non-Consolidated Financial Statements

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29. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

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

(in millions of Won)

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

30. INTEREST BEARING ASSETS AND LIABILITIES

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

(in millions of Won)

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

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31. OPERATIONS OF THE TRUST ACCOUNTS

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

(in millions of Won)

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

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

(in millions of Won)

	Book Value	Fair Value	Liability
Principal guaranteed money trusts	₩ 3,298,269	₩ 3,374,990	₩ -
Principal and dividend guaranteed money trusts	106,948	114,835	-
	₩ 3,405,217	₩ 3,489,825	₩ -

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

(in millions of Won)

	Trust Account Related Income		Trust Account Related Expenses
Gain on trust management	₩ 232,361	Interest expense on borrowings from trust accounts	₩ 36,970
Early withdrawal penalties	172	Loss on trust management	-
Interest income on loans to trust accounts	548		
	₩ 233,081		₩ 36,970

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32. BUSINESS COMBINATION WITH H&CB

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

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

33. MERGER WITH KOOKMIN CREDIT CARD CO., LTD.

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

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

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

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

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

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

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

(in millions of Won)

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

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

(in millions of Won)

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

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

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

3* Balance sheet of Kookmin Credit Card Co., Ltd and its statements of operations is unaudited.

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

34. STATEMENT OF CASH FLOWS

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

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

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

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

35. BUSINESS SEGMENTS

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

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

Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

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

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

36. FINAL INTERIM PERIOD PERFORMANCE

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

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

37. RECLASSIFICATION OF PRIOR FINANCIAL STATEMENT PRESENTATION

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

38. SUBSEQUENT EVENT

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

39. APPROVAL OF FINANCIAL STATEMENTS

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

Balance Sheets (Trust Accounts)

As of December 31, 2003 and 2002

(in millions of Won)

	2003	2002
Assets		
Cash and due from banks	₩ 256,150	₩ 236
Securities (Note 4)	9,677,174	15,001,019
Loans (Note 5)	489,788	575,412
Trusted money receivables	20,228,649	26,669,409
Trusted estates	2,563	-
Real & personal property	177	175
Other assets	255,423	325,520
Due from banking accounts	1,567,943	457,941
Present value discounts	(771)	(1,771)
Allowances for receivables losses (Note 6)	(139,769)	(190,417)
Total Assets	₩ 32,337,327	₩ 42,837,524
Liabilities		
Money trusts (Note 8)	₩ 10,278,357	₩ 15,356,285
Property trusts (Note 8)	21,453,760	26,852,684
Borrowings from banking accounts	-	37,882
Accrued trust profit payable to beneficiaries (Note8)	418,599	422,562
Other liabilities	130,483	122,356
Reserves for future trust losses (Note 2)	56,128	45,755
Total Liabilities	₩ 32,337,327	₩ 42,837,524

Income Statements (Trust Accounts)

For the years ended December 31, 2003 and 2002

	(in millions of Won)	
	2003	2002
Revenues		
Interest and dividend income :		
Interest and dividends on securities	₩ 730,871	₩ 1,057,767
Interest on loans	51,484	76,479
Interest on call loans	-	1,532
Interest on bonds purchased under resale agreements	-	1,162
Interest on trusted money receivables	1,368,774	1,169,135
Interest on due from banking accounts	36,970	24,240
Other interest income	1,539	5
	2,189,638	2,330,320
Gains on derivatives	3,005	46,272
Gains on real & personal property	-	1,537
Gains on securities	253,296	102,308
Commissions income	1,068	2,452
Other revenues	39,242	12,387
Reversal of allowances for receivables losses	86,220	154,510
Reversal of reserves for future trust losses	1,527	6,417
	2,573,996	2,656,203
Expenses		
Interest on borrowings	548	5,733
Fees and commission	2,161	2,499
Losses on derivatives	2,658	66,271
Losses on securities	109,826	193,863
Contribution to fund	7,680	4,992
Taxes	970	419
Trust fees to the Bank	232,361	300,686
Other expenses	7,832	8,783
Provision for future trust losses	11,966	16,423
Provision for receivables losses	50,240	6,751
	426,242	606,420
Dividends of Trust Profits to Beneficiaries (Note 8)	₩ 2,147,754	₩ 2,049,783

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

1. THE TRUSTEE :

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

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

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

As of December 31, 2003 and 2002, total assets (“the Bank accounts”) amounted to ₩184,052,506 million and ₩171,496,841 million, and total liabilities (“the Bank accounts”) stood at ₩175,637,992 million and ₩161,124,212 million. Total shareholders’ equity stood at ₩8,414,514 million and ₩10,374,629 million as of December 31, 2003 and 2002.

Summarized financial status of the Bank is as follows :

	(in millions of Won)	
	2003	2002
Cash and due from banks	₩ 6,526,345	₩ 4,599,356
Securities	28,101,845	30,940,750
Loans	139,920,521	126,730,561
Other assets	9,503,795	9,228,174
Total assets	₩ 184,052,506	₩ 171,498,841
Deposits	₩ 132,180,272	₩ 123,109,653
Borrowings	10,902,800	10,690,754
Debentures	19,192,581	17,539,007
Other liabilities	13,362,339	9,784,798
Total liabilities	175,637,992	161,124,212
Total shareholders’ equity	8,414,514	10,374,629
Total liabilities and shareholders’ equity	₩ 184,052,506	₩ 171,498,841
Operating revenues	₩ 15,556,986	₩ 15,584,501
Operating expenses	15,480,902	13,318,706
Net income	(753,348)	1,310,291

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

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES :

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

Revenues and Expenses of Trust Accounts -

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

Interest Income Recognition -

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

Securities -

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

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

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

In addition, securities that are managed under specified money trusts or property trusts, other than beneficiary certificates, are recorded at cost.

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

Allowances for Receivables Losses -

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

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

Credit Risk Classification	Credit Ratings after Changes	Allowance Rates
Normal	AAA ~ B	0.50%
Precautionary	B-, CCC	2.00%
Substandard	CC	20.00%
Doubtful	C	50.00%
Estimated loss	D	100.00%

However, the Trust Accounts do not apply FLC to small-sized corporate loans and consumer loans. Alternatively, the Trust Accounts classify such loans by considering the current financial status including delinquent number of days, bankruptcies and collateral value. As of December, 2002, the rates for determining the allowances for small-sized corporate receivables and consumer loans were changed as follows:

Credit Risk Classification	Allowance Rates before Changes	Allowance Rates after Changes	
		Small-sized Corporate	Consumer
Normal ^(*)	0.50%	0.50%	0.75%
Precautionary	2.00%	2.00%	8.00%
Substandard	20.00%	20.00%	20.00%
Doubtful	50.00%	50.00%	55.00%
Estimated loss	100.00%	100.00%	100.00%

(*) "Normal" is applied only to dividend guaranteed trust

Present Value Discounts -

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

Due from Banking Accounts -

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

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

Reserves for Future Trust Losses and Subsidies from Banking Accounts -

Under the Trust Business Act, the Trust Accounts provide more than 25% of the trust fees as reserves for future trust losses up to 5% of invested capital for each type of money trusts with guarantees of principal or a minimum rate of return. When reserves for future losses are used to compensate principal or minimum rate of return, reversal of reserves for future trust losses are recorded, and when there is excessive reserve for future trust losses, excessive reserves are transferred to trust fees. Provision for reserves was ₩ 11,966 million and ₩ 16,423 million for the year ended December 31, 2003 and 2002 respectively. Reversal of reserves was ₩ 1,527 million and ₩ 6,417 million for the year ended December 31, 2003 and 2002 respectively.

In cases where unspecified money trusts experience losses in excess of the guaranteed principal or a minimum rate of return, the losses are appropriated from reserve for future trust losses and trust fees. If losses are incurred in excess of the sum of reserve for future trust losses and trust fees, the Trust Accounts are provided the deficient amounts from the banking accounts. The banking accounts for this as loss on operating the Trust Accounts in other operating expenses and Trust Accounts account for this as subsidies from the banking accounts. Subsidies from Banking Accounts were recorded at ₩ 0 for the years ended December 31, 2003 and 2002.

Derivatives Instrument -

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

Trust Fees -

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

Performance Yield and Standard Price -

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

(1) Performance Yield

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

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

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

(2) Standard Price

The standard price (per 1,000 units) is calculated by dividing the net assets by the total number of beneficial certificate units. Net assets is defined as total assets less total liabilities, where total liabilities excludes money trusts and trust profit payable to beneficiaries.

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

3. SUMMARY OF TRUST ACCOUNTS :

As of December 31, 2003, condensed balance sheet is as follows:

(in millions of Won)

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Securities	₩ 2,797,148	₩ 32,159	₩ 5,911,738	₩ 936,129	₩ 9,677,174
Loans	134,984	9,702	345,102	-	489,788
Monetary receivables	-	-	-	20,228,649	20,228,649
Due from banking account	470,647	41,322	872,302	183,672	1,567,943
Present value discounts	(771)	-	-	-	(771)
Allowance for receivables losses	(69,839)	(2,500)	(67,430)	-	(139,769)
Other assets	73,047	1,246	177,967	262,053	514,313
Total assets	₩ 3,405,216	₩ 81,929	₩ 7,239,679	₩ 21,610,503	₩ 32,337,327
Trust	3,190,062	71,564	7,016,731	21,453,760	31,732,117
Reserves for future trust losses	52,566	3,562	-	-	56,128
Other liabilities	162,588	6,803	222,948	156,743	549,082
Total liabilities	₩ 3,405,216	₩ 81,929	₩ 7,239,679	₩ 21,610,503	₩ 32,337,327

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

(in millions of Won)

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Securities	₩ 3,715,276	₩ 80,040	₩ 11,030,654	₩ 175,049	₩ 15,001,019
Loans	153,105	15,635	406,672	-	575,412
Monetary receivables	-	-	-	26,669,409	26,669,409
Due from banking account	96,587	5,983	340,379	14,992	457,941
Present value discounts	(1,738)	(7)	(26)	(26)	(1,771)
Allowance for receivables losses	(92,747)	(2,083)	(95,587)	-	(190,417)
Other assets	85,069	1,977	238,312	573	325,931
Total assets	₩ 3,955,552	₩ 101,545	₩ 11,920,404	₩ 26,860,023	₩ 42,837,524
Trust	3,697,202	90,084	11,568,999	26,852,684	42,208,969
Reserves for future trust losses	41,251	4,504	-	-	45,755
Other liabilities	217,099	6,957	351,405	7,339	582,800
Total liabilities	₩ 3,955,552	₩ 101,545	₩ 11,920,404	₩ 26,860,023	₩ 42,837,524

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

Condensed income statement for the year ended December 31, 2003 is as follows:

(in millions of Won)

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Interest income	₩ 201,981	₩ 5,827	₩ 572,470	₩ 1,372,390	₩ 2,152,668
Gain on derivatives	1,165	-	1,840	-	3,005
Gain on securities	28,963	382	72,241	151,710	253,296
Interest on due from banking account	7,897	811	22,180	6,082	36,970
Subsidies from the bank	-	-	-	-	-
Reversal of allowance for receivables losses	27,935	420	57,865	-	86,220
Other income	11,878	960	28,835	164	41,837
Total revenues	₩ 279,819	₩ 8,400	₩ 755,431	₩ 1,530,346	₩ 2,573,996
Dividend of trust profits to beneficiaries	107,837	4,193	508,886	1,526,838	2,147,754
Loss on derivatives	967	-	1,691	-	2,658
Loss on securities	45,516	1,192	60,988	2,130	109,826
Trust fees	84,389	2,223	144,389	1,360	232,361
Provision for receivables losses	16,803	454	32,983	-	50,240
Other expenses	24,307	338	6,494	18	31,157
Total expenses	₩ 279,819	₩ 8,400	₩ 755,431	₩ 1,530,346	₩ 2,573,996

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

(in millions of Won)

	Principal or Dividends Guaranteed	Mixed (Principal Guaranteed, Performance)	Performance	Property	Total
Interest income	₩ 313,096	₩ 10,316	₩ 813,505	₩ 1,169,162	₩ 2,306,079
Gain on derivatives	26,745	-	19,527	-	46,272
Gain on securities	36,634	383	64,190	1,101	102,308
Interest on due from banking account	6,360	200	16,908	772	24,240
Subsidies from the bank	-	-	-	-	-
Reversal of allowance for receivables losses	112,174	1,490	40,846	-	154,510
Other income	5,313	734	16,243	504	22,794
Total revenues	₩ 500,322	₩ 13,123	₩ 971,219	₩ 1,171,539	₩ 2,656,203
Dividend of trust profits to beneficiaries	211,659	8,225	659,947	1,169,952	2,049,783
Loss on derivatives	40,918	-	25,353	-	66,271
Loss on securities	100,006	687	92,824	346	193,863
Trust fees	111,476	4,021	183,994	1,195	300,686
Provision for receivables losses	2,913	-	3,838	-	6,751
Other expenses	33,350	190	5,263	46	38,849
Total expenses	₩ 500,322	₩ 13,123	₩ 971,219	₩ 1,171,539	₩ 2,656,203

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

4. SECURITIES :

Securities as of December 31, 2003 and 2002 comprise the following:

(in millions of Won)

	Par Value	Acquisition Cost	Balance Sheet Amount	
			2003	2002
Equity securities	₩ -	₩ 581,994	₩ 592,379	₩ 924,514
Government and municipal bonds				
Treasury bonds	627,300	637,525	633,371	533,228
Public housing bonds	414,939	397,831	404,809	547,384
Grain supply bonds	20,000	22,298	21,179	38,761
Foreign exchange stabilization bonds	135,000	139,987	138,263	126,447
Municipal bonds	54,603	54,682	54,798	77,375
		1,252,323	1,252,420	1,323,195
Finance debentures				
Monetary stabilization bond	885,000	880,762	878,077	583,379
Other finance debentures	727,573	706,938	706,286	877,793
		1,587,700	1,584,363	1,461,172
Corporate bonds				
Special bonds	1,222,554	1,258,483	1,240,448	2,097,864
General corporate bonds	2,306,038	2,292,282	2,284,154	3,638,470
ABS	554,899	556,788	555,760	1,864,460
		4,107,553	4,080,362	7,600,794
Commercial papers	563,439	563,439	563,432	2,696,979
Other securities				
Beneficiary certificates(bonds)	-	6,695	6,624	172,554
Beneficiary certificates(stocks)	-	624,248	772,200	2,633
Others	-	57,890	57,719	71,925
		688,833	836,543	247,112
Securities denominated in foreign currencies	767,675	767,675	767,675	747,253
		₩ 9,549,517	₩ 9,677,174	₩15,001,019

Securities subject to market value valuation are recorded at fair value using the average of yield rate provided by Korea Investors Service, Inc. and Korea Bond Pricing & KMCC Co.

Continued;

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

Investment securities risk concentrations as of December 31, 2003 and 2002 are as follows:

(in millions of Won)

	2003		2002	
	Amount	Ratio (%)	Amount	Ratio (%)
By Conuntry				
Korea	₩ 9,497,094	98.14	₩ 15,001,019	100.00
Others	180,080	1.86	-	-
	₩ 9,677,174	100.00	₩ 15,001,019	100.00
By Type				
Fixed rate bonds	₩ 6,948,477	71.81	₩ 9,001,858	60.01
Floating rate bonds	1,340,317	13.85	2,087,822	13.92
Convertible bonds	14,770	0.15	20,733	0.14
Equity securities	592,379	6.12	924,514	6.16
Beneficiary certificates	778,824	8.05	175,187	1.17
Stock warrant securities	1,019	0.01	-	-
Others	1,388	0.01	2,790,905	18.60
	₩ 9,677,174	100.00	₩ 15,001,019	100.00
By Industry				
Government and municipalities	₩ 1,252,419	12.94	₩ 1,323,196	8.82
Financial institutions	5,871,136	60.67	9,410,633	62.73
Manufacturing	963,555	9.96	1,837,355	12.25
Others	1,590,064	16.43	2,429,835	16.20
	₩ 9,677,174	100.00	₩ 15,001,019	100.00

The maturities of securities, except equity securities, as of December 31, 2003 and 2002 are summarized as follows:

As of December 31, 2003

(in millions of Won)

	Government & Municipal Bonds	Finance	Corporate	Commercial	Other	Securities	Total
		Debentures	Bonds	Papers	Securities	in Foreign Currencies	
Due in 3 months or less	₩ 65,594	₩ 207,020	₩ 526,349	₩ 538,687	₩ 45,981	₩ -	₩ 1,383,631
Due in 6 months or less	82,138	153,882	400,713	6,000	9,946	78,644	731,323
Due in 1 year or less	241,188	585,845	701,494	16,550	403	240,569	1,786,049
Due in 2 year or less	344,681	547,141	1,480,548	-	-	237,138	2,609,508
Due in 3 year or less	307,728	20,000	632,972	-	769,567	132,644	1,862,911
Due in 4 year or less	3,306	-	82,248	-	-	13,530	99,084
Due in 5 year or less	207,785	40,105	248,600	-	-	-	496,490
Thereafter	-	30,370	7,438	2,195	10,646	65,150	115,799
	₩ 1,252,420	₩ 1,584,363	₩ 4,080,362	₩ 563,432	₩ 836,543	₩ 767,675	₩ 9,084,795

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

As of December 31, 2002

(in millions of Won)

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

5. LOANS :

All loans as of December 31, 2003 and 2002 are Korean Won denominated loans generated in Korea.

Loan risk concentrations by industry as of December 31, 2003 and 2002 are as follows:

(in millions of Won)

	2003		2002	
	Amount	Ratio (%)	Amount	Ratio (%)
Corporate loans				
Financial institutions	₩ 942	0.19	₩ 1,339	0.23
Manufacturing	10,027	2.05	14,227	2.47
Services	111,104	22.68	14,893	2.59
Others	103,110	21.05	123,405	21.45
	225,183	45.97	153,864	26.74
Consumer loans				
	264,605	54.03	421,548	73.26
	₩ 489,788	100.00	₩ 575,412	100.00

The maturities of loans as of December 31, 2003 and 2002 are summarized as follows:

As of December 31, 2003

(in millions of Won)

	Secured by Real Estate	Secured by Beneficiary Right	Secured by Guarantee	Secured by Deposit	Secured by Note	Others	Total
	Due in 3 months or less	₩ 12,402	₩ 40,762	₩ 287	₩ 24,593	₩ 385	₩ 5,197
Due in 6 months or less	31,351	12,405	154	28,834	170	1,827	74,741
Due in 1 year or less	28,806	43,733	9	73,578	10,024	2,586	158,736
Due in 2 year or less	743	5,034	-	64,003	15,627	40	85,447
Due in 3 year or less	2,928	3,466	14	2,068	-	-	8,476
Due in 4 year or less	1,130	2,554	-	46	-	-	3,730
Due in 5 year or less	312	2,086	-	10	-	-	2,408
Thereafter	52,797	19,598	125	104	-	-	72,624
	₩ 130,469	₩ 129,638	₩ 589	₩ 193,236	₩ 26,206	₩ 9,650	₩ 489,788

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

As of December 31, 2002

(in millions of Won)

	Secured by Real Estate	Secured by Beneficiary Right	Secured by Guarantee	Secured by Deposit	Secured by Note	Others	Total
Due in 3 months or less	₩ 61,284	₩ 59,829	₩ 24,618	₩ 57,007	₩ 981	₩ 7,969	₩ 211,688
Due in 6 months or less	34,186	22,044	448	9,458	737	2,553	69,426
Due in 1 year or less	22,901	49,471	230	30,782	36	3,653	107,073
Due in 2 year or less	31,847	4,542	-	21,372	10,000	4	67,765
Due in 3 year or less	1,162	2,803	-	6,899	15,627	-	26,491
Due in 4 year or less	4,245	1,793	22	546	-	-	6,606
Due in 5 year or less	1,950	2,489	-	-	-	-	4,439
Thereafter	66,280	15,217	247	180	-	-	81,924
	₩ 223,855	₩ 158,188	₩ 25,565	₩ 126,244	₩ 27,381	₩ 14,179	₩ 575,412

The credit risk classifications of loans as of December 31, 2003 and 2002 are as follows:

As of December 31, 2003

(in millions of Won)

Secured by	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Real estate	₩ 94,984	₩ 12,116	₩ 22,531	₩ 156	₩ 682	₩ 130,469
Beneficiary right	129,634	-	1	3	-	129,638
Guarantee	333	13	236	7	-	589
Deposit	148,019	40,170	2,437	1,831	779	193,236
Note	25,761	-	340	12	93	26,206
Others	5,865	47	3,738	-	-	9,650
	₩ 404,596	₩ 52,346	₩ 29,283	₩ 2,009	₩ 1,554	₩ 489,788

As of December 31, 2002

(in millions of Won)

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

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

6. ALLOWANCES FOR RECEIVABLES LOSSES :

As of December 31, 2003 and 2002, allowances for receivables losses comprise follows

(in millions of Won)

		2003	2002
Securities	Equity securities	₩ 7,499	₩ 9,632
	Corporate bonds	76,168	38,736
	Commercial papers	41,623	34,608
	Others	681	-
		125,971	82,976
Loans	Consumer loans	5,401	19,800
	Corporate loans	7,887	17,931
		13,288	37,731
Suspense receivables		431	320
Others	Real & personal property	79	-
	Securities sold under repurchase agreements	-	1,759
	Excessive allowance	-	67,631
		79	69,390
	₩ 139,769	₩ 190,417	

Allowances for receivables losses and the related securities, loans and suspense receivables that need provision of allowances as of December 31, 2003 and 2002 are as follows:

As of December 31, 2003

(in millions of Won)

	Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Securities						
Balance ^(*)	₩ 160	₩ 380,080	₩ 52,777	₩ 55,357	₩ 7,098	₩ 495,472
Allowances	1	59,319	16,778	42,774	7,098	125,970
Provision rate (%)	0.50	15.61	31.79	77.27	100.00	25.42
Loans						
Balance ^(*)	1,831	14,300	29,282	2,010	1,554	48,977
Allowances	14	1,164	9,459	1,098	1,554	13,289
Provision rate (%)	0.76	8.14	32.30	54.63	100.00	27.13
Suspense receivables						
Balance ^(*)	1	-	291	263	229	784
Allowances	-	-	58	144	229	431
Provision rate (%)	0.00	0.00	19.93	54.75	100.00	54.97
Total						
Balance ^(*)	₩ 1,992	₩ 394,380	₩ 82,350	₩ 57,630	₩ 8,881	₩ 545,233
Allowances	15	60,483	26,295	44,016	8,881	139,690
Provision rate (%)	0.74	15.34	31.93	76.38	100.00	25.62

(*) Balance after deducting present value discount

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

As of December 31, 2002

(in millions of Won)

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

(*) Balance after deducting present value discount

For the years ended December 31, 2003 and 2002, allowances for receivables losses changed as follows:

(in millions of Won)

		2003	2002
Beginning balance		₩ 190,417	₩ 374,577
Increase	Provision of allowance	50,239	6,751
	Others	13,059	27,899
		63,298	34,650
Decrease	Write off	27,726	64,300
	Reversal of allowance	86,220	154,510
		113,946	218,810
Ending balance		₩ 139,769	₩ 190,417

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

7. DERIVATIVES :

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

As of December 31, 2003 and 2002, outstanding derivatives are as follows:

As of December 31, 2003

	(in millions of Won)	
	Contract Amount	Gain/Loss
Stock index related		
KOSPI200 index futures 0403	₩ 1,420	₩ 68
Interest related		
Government bond futures 403	-	-
	₩ 1,420	₩ 68

As of December 31, 2002

	(in millions of Won)	
	Contract Amount	Gain/Loss
Stock index related		
KOSPI200 index futures 0303	₩ 1,441	₩ 10
Interest related		
Government bond futures 303	64,032	(50)
	₩ 65,473	₩ 40

8. REVENUES AND EXPENSES :

Revenues and expenses of the Trust Accounts for the period ended December 31, 2003 are as follows:

	(in millions of Won)			
	Revenue	Trust Fees	Expense	Dividends
Money trusts				
Unspecified money trust	₩ 25	₩ 10	₩ 9	₩ 6
Installment money trust	41,505	14,040	2,618	24,847
Household money trust	13,109	3,281	5,435	4,393
Development trust	60,367	45,672	14,688	7
Money trust for old age living pension	6,517	2,322	448	3,747
Corporate money trust	1,683	185	135	1,363
National stock trust	2,302	62	952	1,288
Money trust for individual pension	125,835	20,643	35,945	69,247
Household long-term money trust	131,130	24,626	34,617	71,887
Money trust for employee	27,831	5,905	5,692	16,234
New installment money trust	181,793	78,679	9,392	93,722
Retirement trust	11,862	1,568	3,042	7,252
Specified money trust	256,668	5,589	23,841	227,238
Unit type money trust	34,761	4,084	6,298	24,379
Open type money trust	42,590	5,791	13,737	23,062
Real estate investments trust	27,707	3,795	764	23,148

Continued;

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

(in millions of Won)

	Revenue	Trust Fees	Expense	Dividends
New money trust for individual pension	2,579	471	1,004	1,104
New money trust for old age living pension	65,771	12,453	30,010	23,308
New money trust for employee	2,803	626	660	1,517
Pension trust	6,863	1,250	2,446	3,167
	1,043,701	231,052	191,733	620,916
Property trusts				
Securities trust	154,174	106	2,148	151,920
Money receivables trust	1,376,121	1,203	-	1,374,918
	1,530,295	1,309	2,148	1,526,838
	₩ 2,573,996	₩ 232,361	₩ 193,881	₩ 2,147,754

Accrued trust profit payable to beneficiaries is recorded at net amount. Negative accrued trust profit payable to beneficiaries is due to provision of allowances regarding securities of LG Card Co., Ltd. Negative accrued trust profit payable to beneficiaries by money trusts is as follows :

(in millions of Won)

Money Trusts	Amount	Guarantee	Allowances for Securities of LG Card Co., Ltd.
Money trust for individual pension(A)	₩ (7,663)	Principal Guaranteed	₩ 9,788
Money trust for individual pension(B)	(4,415)	Principal Guaranteed	6,209
Household long-term money trust(A)	(8,054)	Not guaranteed	10,550
Household long-term money trust(B)	(9,057)	Not guaranteed	11,205
Money trust for employee(A)	(3,181)	Not guaranteed	3,800
Money trust for employee(B)	(1,519)	Not guaranteed	1,920
New installment money trust(A)	(3,592)	Not guaranteed	6,656
New installment money trust(B)	(2,802)	Not guaranteed	3,379
	₩ (40,283)		₩ 53,507

9. CHARACTERISTICS AND DIVIDEND RATE OF TRUST :

As of December 31, 2003 and 2002, the trust funds comprise 1,071,385 units and 1,237,033 units, respectively. The key terms and conditions of the trust funds are as follows:

(in millions of Won)

	Period (Years)	Type of Dividends	Average Dividends Rate (%)	Guarantee
Money trust				
Unspecified money trust	over 1.5 years	Contracted	3.03	principal and interest
Installment money trust	over 1.5 years	Performance	5.65	- (*)
Household money trust	1.5 years	Performance	2.41	- (*)
Development trust	2, 3 year	Contracted	1.97	principal and interest
Money trust for old age living pension	over 5 years	Performance	5.29	principal
Corporate money trust	1.5 years	Performance	5.91	- (*)
National stock trust	over 3 years	Performance	23.26	-
Money trust for individual pension	over 15 years	Performance	4.28	principal

Continued;

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

(in millions of Won)

	Period (Years)	Type of Dividends	Average Dividends Rate (%)	Guarantee
Household long-term money trust	3-5 years	Performance	5.12	-
Money trust for employee	3-5 years	Performance	6.27	-
New installment money trust	over 1.5 years	Performance	4.87	-
Retirement trust	-	Performance	3.78	principal
Specified money trust	-	Performance	5.99	-
Unit type money trust	1 year	Performance	6.32	-
Open type money trust	1 year	Performance	4.71	-
Real estate investments trust	1-1.5 years	Performance	7.26	-
New money trust for individual pension	over 15 years	Performance	2.80	principal
New money trust for old age living pension	over 1 year	Performance	2.33	principal
New money trust for employee	3-5 years	Performance	3.35	-
Pension trust	over 15 years	Performance	2.97	principal
Property trust				
Securities trust	over 1 year	Performance	26.52	-
Money receivables trust	-	Performance	5.74	-
Real & personal property trust	-	Performance	-	-

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

10. RELATED PARTY TRANSACTIONS :

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

As of December 31, 2003

(in millions of Won)

Balance Sheet Accounts		Income Statement Accounts	
Accounts	Amount	Accounts	Amount
Banking accounts			
Corporate bonds	₩ 146,660	Interest income	₩ 12,966
Commercial papers	35,900	Unrealized gain on securities	36
Due from banking account	1,567,943	Loss on redemption of securities	132
Borrowings	-	Loss on sale of securities	6
Accrued payable trust fees	111,363	Interest on due from banking account	36,970
		Interest on borrowings	548
		Commission on termination of commodity	172
		Trust fees	232,361
Kookmin Credit Card Co.,Ltd.			
		Interest income	14,452
		Loss on redemption of securities	139
		Loss on sale of securities	90
Kookmin Investment Trust Mgt. Co., Ltd.			
Commercial papers	-	Interest income	1,202
		Loss on sale of securities	22,896

Notes to Financial Statements (Trust Accounts)

December 31, 2003 and 2002

As of December 31, 2002

(in millions of Won)

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

For the year ended December 31, 2003 and 2002, ₩149,795 million and ₩236,390 million of trust assets have been transferred from performance trusts to principal or dividends guaranteed trusts.

11. COMMITMENTS AND CONTINGENCIES :

As of December 31, 2003, the Trust Accounts' total exposure related to LG Card Co., Ltd. which is currently experiencing liquidity crisis amounts to ₩612,858 million. The ultimate effect of these circumstances on the financial position of the Trust Accounts as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

12. UNCERTAINTIES DUE TO KOREAN ECONOMIC INSTABILITY :

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

As of December 31, 2003, the Trust Accounts' total exposure related to domestic credit card companies and capital companies amounts to ₩1,420,145 million. Currently, securities related to credit card companies and capital companies, which are experiencing liquidity problems, are not widely traded in the bond market. The ultimate effect of these circumstances on the financial position of the Trust Accounts as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

Report of Independent Auditors

December 31, 2003 and 2002

SAMIL ACCOUNTING CORPORATION

PRICEWATERHOUSECOOPERS 
Samil PricewaterhouseCoopers
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**To the Board of Directors and Shareholders of
Kookmin Bank and subsidiaries**

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

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

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

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

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

Report of Independent Auditors

December 31, 2003 and 2002

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

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

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

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

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

Credit Risk Classification	Allowance Rates before Changes	Allowance Rates after Changes	
		Consumer	Credit Card
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%

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

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

As discussed in Note 16 to the consolidated financial statements, in accordance with the agreement with the creditors' committee of LG Card Co., Ltd. on November 24, 2003, the Bank provided additional loans of ₩437 billion to LG Card Co., Ltd., which is currently

Report of Independent Auditors

December 31, 2003 and 2002

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

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

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

Samil PricewaterhouseCoopers

Seoul, Korea
March 3, 2004

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

Consolidated Balance Sheets

December 31, 2003 and 2002

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

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

Consolidated Statements of Operations

Years ended December 31, 2003 and 2002

(in millions of Won, except per share amounts)

	2003	2002
Interest Income		
Interest on due from banks	₩ 10,997	₩ 56,412
Interest on trading securities	303,743	369,631
Interest on available-for-sale securities	960,599	653,958
Interest on held-to-maturity securities	1,242,809	1,405,807
Interest on loans	10,443,799	10,472,306
Other interest income	122,955	130,323
	13,084,902	13,088,437
Interest Expenses		
Interest on deposits	4,386,806	4,982,936
Interest on borrowings	591,830	735,982
Interest on debentures	1,436,234	1,236,299
Other interest expenses	60,891	52,738
	6,475,761	7,007,955
Net interest income	6,609,141	6,080,482
Provision for loan losses (Note 6)	4,638,051	3,196,161
Net interest income after provision for loan losses	1,971,090	2,884,321
Non-interest Income		
Fees & commission income	2,566,553	2,571,278
Dividends on trading securities	79,121	1,234
Dividends on available-for-sale securities	5,986	13,575
Gain on foreign currency transactions	291,542	212,832
Gain on derivatives transactions (Note 15)	1,134,624	1,776,807
Others (Note 23)	843,573	1,199,434
	4,921,399	5,775,160
Non-interest Expenses		
Fees and commission expenses	717,604	862,507
General and administrative expenses (Note 24)	3,027,164	2,977,475
Loss on foreign currency transactions	195,212	246,090
Loss on derivatives transactions (Note 15)	1,062,812	1,625,534
Others (Note 23)	1,351,726	991,666
	6,354,518	6,703,272
Operating income	537,971	1,956,209
Non-operating expenses, net (Note 25)	(1,557,577)	(137,777)
Net (loss) income before income tax expense	(1,019,606)	1,818,432
Income tax (benefit) expense (Note 26)	(354,358)	612,384
Net (loss) income before consolidation adjustment	(665,248)	1,206,048
Minority interest in (earnings) losses of consolidated subsidiaries	(76,502)	65,260
Net (loss) income	₩ (741,750)	₩ 1,271,308
Basic (loss) earnings per share (In Korean Won) (Note 27)	₩ (2,275)	₩ 4,001
Diluted (loss) earnings per share (In Korean Won) (Note 27)	₩ (2,275)	₩ 4,001

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

Consolidated Statements of Changes in Shareholders' Equity

Years ended December 31, 2003 and 2002

(in millions of Won)

	Capital	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
Balance, January 1, 2002	₩ 1,498,487	₩ 5,745,002	₩ 1,519,064	₩ 205,274	₩ 309,129	₩ 9,276,956
Conversion of overseas bonds to stocks	52,906	181,194	-	-	-	234,100
Net income	-	-	1,271,308	-	-	1,271,308
Dividend payment	-	-	-	-	(6,883)	(6,883)
Conversion of stock dividends distributable	89,900	-	-	(89,900)	-	-
Loss in excess of minority interest	-	-	3,360	-	-	3,360
Changes in treasury stock	-	-	-	(147,610)	-	(147,610)
Unrealized gain on available-for-sale securities, net	-	-	-	87,330	34	87,364
Stock options	-	-	-	(25,624)	395	(25,229)
Loss in minority interest	-	-	-	-	(65,260)	(65,260)
Changes in minority interest	-	42,610	(4,294)	-	14,965	53,281
Others	-	(405)	(1,969)	1,347	(25)	(1,052)
Balance, December 31, 2002	₩ 1,641,293	₩ 5,968,401	₩ 2,787,469	₩ 30,817	₩ 252,355	₩ 10,680,335

(in millions of Won)

	Capital	Capital Surplus	Retained Earnings	Capital Adjustments	Minority Interest	Total
Balance, January 1, 2003	₩ 1,641,293	₩ 5,968,401	₩ 2,787,469	₩ 30,817	₩ 252,355	₩ 10,680,335
Merger with Kookmin Credit Card Co.	40,603	271,274	-	-	(236,428)	75,449
Net loss	-	-	(741,750)	-	-	(741,750)
Dividend payment	-	-	(325,233)	-	(2,474)	(327,707)
Reserve for losses on sale of treasury stock	-	(2,147)	-	2,147	-	-
Changes in treasury stock	-	-	-	(1,182,235)	-	(1,182,235)
Unrealized gain on available-for-sale securities, net	-	-	-	(36,891)	(13)	(36,904)
Unrealized gain on investment in associates, net	-	-	-	881	-	881
Stock options	-	-	-	25,814	-	25,814
Unrealized gain on derivatives, net	-	-	-	(1,347)	-	(1,347)
Changes in minority interest	-	-	-	-	3,330	3,330
Changes in subsidiaries	-	-	(7,656)	-	-	(7,656)
Others	-	-	(166)	-	-	(166)
Balance, December 31, 2003	₩ 1,681,896	₩ 6,237,528	₩ 1,712,664	₩ (1,160,814)	₩ 16,770	₩ 8,488,044

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

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

(in millions of Won)

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

Continued;

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	(in millions of Won)	
	2003	2002
Cash Flows from Investing Activities		
(Increase) decrease in due from banks	₩ (1,178,152)	₩ 2,797,251
Decrease in trading securities	2,221,779	2,507,440
Increase in available-for-sale securities	(3,522,402)	(10,307,680)
Decrease in held-to-maturity securities	8,228,193	9,348,124
Increase in equity securities	(88,380)	-
Increase in loans granted, net	(9,680,411)	(21,183,846)
Proceeds from disposal of fixed assets	105,902	17,749
Acquisition of fixed assets	(347,368)	(706,195)
Acquisition of intangible assets	(2,048)	(103,536)
Proceeds from disposal of foreclosed assets	2,830	3,197
Acquisition of foreclosed assets	(165)	-
Increase in guarantee deposits	(3,528)	(94,831)
Decrease (increase) in other accounts receivable	170,286	(312,077)
(Increase) decrease in payments in advance	(33,330)	46,528
Decrease in derivative assets, net	130,945	51,339
Collection of domestic exchange receivables	474,995	403,014
Collection of (payments for) loans to trust accounts	26,060	(47,933)
Net cash used in investing activities	₩ (3,494,794)	₩ (17,581,456)

Continued;

Consolidated Statements of Cash Flows

Years ended December 31, 2003 and 2002

	(in millions of Won)	
	2003	2002
Cash Flows from Financing Activities		
Increase in deposits, net	₩ 8,506,356	₩ 6,442,197
(Decrease) increase in borrowings, net	(5,172,931)	369,195
(Decrease) increase in debentures, net	(4,267,769)	9,839,721
Securities sold under repurchase agreements	548,995	118,719
Increase (decrease) in borrowings from trust accounts	2,874,589	(832,975)
Increase (decrease) increase in call money	215,589	(2,364,375)
Decrease in borrowings from the Bank of Korea in foreign currency	(24,885)	(89,007)
Decrease in dividend payable	(325,233)	(47,337)
Decrease in bills sold	(28,621)	(6,583)
(Decrease) increase in other accounts payable	(181,195)	654,575
(Decrease) increase in advances received from customers	(142,668)	117,279
Increase (decrease) in guarantee deposits received	2,179	(37,949)
Decrease in domestic exchange payables	(141,312)	(901,723)
Decrease in liabilities incurred by agency relationships	(171,172)	(219,313)
Stock options exercised	(35)	(26,742)
Acquisition of treasury stock	(1,227,876)	(149,704)
Sale of treasury stock	826	1,928
Increase in stock issuance cost	(212)	(737)
Increase in minority interest	-	1,075
Net cash provided by financing activities	464,625	12,868,244
Decrease in cash due to change in scope of affiliates	(85,284)	(18,143)
Net increase (decrease) in cash and cash equivalents	583,527	(262,272)
Cash and cash equivalents, beginning of the period (Note 34)	3,207,248	3,469,520
Cash and cash equivalents, end of the period (Note 34)	₩ 3,790,775	₩ 3,207,248

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

1. THE CONSOLIDATED COMPANY

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

The Bank

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

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

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

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

Trust Accounts of the Bank

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Subsidiaries either consolidated or accounted for under the equity method

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

Companies	Balance Sheet Date	2003		2002	
		Number of Share	Ownership (%)	Number of Shares	Ownership (%)
Consolidated subsidiaries					
Kookmin Data System Corp.	31-Dec.	799,800	99.98	799,800	99.98
Kookmin Futures Co., Ltd.	31-Mar.	3,999,200	99.98	3,999,200	99.98
KB Investment Co., Ltd. ^{1*}	31-Dec.	8,941,587	99.89	8,941,587	99.89
KB Investment Trust Mgt. Co., Ltd. ^{2*}	31-Mar.	6,134,040	80.00	6,134,040	80.00
KB Real Estate Trust Co., Ltd. ^{3*}	31-Dec.	15,999,930	99.99	15,999,930	99.99
KB Credit Information Co., Ltd. ^{4*}	31-Dec.	867,716	69.28	867,716	69.28
Kookmin Finance HK Ltd.	31-Dec.	2,000,000	100.00	2,000,000	100.00
K.B. Int'l. Ltd.(London)	31-Dec.	20,000,000	100.00	20,000,000	100.00
Equity method investees					
ING Life Co., Ltd.	31-Mar.	1,400,000	20.00	280,000	20.00
Korea Mortgage Corp.	31-Dec.	6,000,000	26.67	6,000,000	26.67
KLB Securities Co., Ltd.	31-Dec.	4,854,713	36.41	4,854,713	36.41
Jeio Co., Ltd. ^{5*}	31-Dec.	419,049	21.14	419,049	21.14
Joeun Industrial Co., Ltd.	31-Dec.	1,999,910	99.99	1,999,910	99.99
K.B. Luxemburg S.A.	31-Dec.	70,000	100.00	70,000	100.00
Kookmin Finance Asia Ltd. (HK)	31-Dec.	2,000,000	100.00	2,000,000	100.00
Kookmin Singapore Ltd.	31-Dec.	30,000,000	100.00	30,000,000	100.00
Sorak Financial Holdings	31-Dec.	-	25.00	-	-
KIKO No.3 Venture Investment Partnership ^{6*}	31-Dec.	-	11.15	-	11.15
Pacific IT Investment Partnership ^{6*}	31-Dec.	-	10.00	-	10.00
Kookmin China Fund No.1 ^{6*}	31-Dec.	-	50.00	-	50.00
KITC Kookmin Venture Fund No.1 ^{6*}	31-Dec.	-	20.00	-	20.00
NPC 02-4 Kookmin Venture Fund ^{6*}	31-Dec.	-	16.67	-	16.67
Kookmin Investment Partnership No. 13 ^{6*}	31-Dec.	-	33.30	-	33.30
Millennium Tour Kookmin Investment Partnership No. 15 ^{6*}	31-Dec.	-	34.00	-	34.00
Kookmin Investment Partnership No.16 ^{6*}	31-Dec.	-	20.00	-	20.00
KB 03-1 Venture Investment Fund ^{6*}	31-Dec.	-	16.67	-	16.67
Korea Asset Investment Co. Ltd.	31-Dec.	48,000	2.38	1,005,000	49.79

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

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

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

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

5* Jeio Co., Ltd. was invested by KB Investment Co., Ltd., a subsidiary of the Bank.

6* These investment funds were invested by KB Investment Co., Ltd, a subsidiary of the Bank

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Scope of Consolidation

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

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

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

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

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

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

Operations of the subsidiaries either consolidated or accounted for under the equity method

Consolidated Subsidiaries:

(in millions)

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Equity Method Investees:

(in millions)

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

Significant Financial Data

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

(in millions of Won)

	Total Assets	Shareholders' Equity	Operating Revenue	Net Income (Loss)
Bank accounts	₩ 184,052,506	₩ 8,414,513	₩ 17,754,261	₩ (753,348)
Trust accounts	3,405,217	52,565	239,449	-
Kookmin Data System Corp.	17,895	14,650	38,035	1,031
Kookmin Futures Co., Ltd.	36,621	25,526	10,009	1,429
KB Investment Co., Ltd.	95,555	77,361	3,983	5,300
KB Investment Trust Mgt. Co., Ltd.	61,533	56,258	25,581	10,433
KB Real Estate Trust Co., Ltd.	257,725	98,129	57,324	10,402
KB Credit Information Co., Ltd.	25,266	17,882	44,321	3,931
Kookmin Finance Hong Kong Ltd.	211,944	62,716	17,676	(1,493)
K.B. Int'l. Ltd. (London)	225,681	56,756	12,873	3,264
Elimination and equity pick-up	(1,616,905)	(388,312)	(197,211)	(22,699)
	₩ 186,773,038	₩ 8,488,044	₩ 18,006,301	₩ (741,750)

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Financial Statement Presentation

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

Accounting Estimates

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

Accounting Policies of Consolidated Entities

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

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

Principles of Consolidation

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

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

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Recognition of Interest Income

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

Deferred loan origination fees and costs

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

Allowance for loan losses

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

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

Credit Risk Classification	Credit Ratings	Allowance Rates
Normal	AAA~B	0.50%
Precautionary	B~CCC	2.00%
Substandard	CC	20.00%
Doubtful	C	50.00%
Estimated loss	D	100.00%

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

Credit Risk Classification	Allowance Rates before Changes	Allowance Rates after Changes	
		Consumer	Credit Card
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%

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

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

Notes to Consolidated Financial Statements

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Present Value Discounts

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

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

Securities

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

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

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

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

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

Investments in Associates

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

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

Notes to Consolidated Financial Statements

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

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

Fixed Assets and Related Depreciation

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

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

Tangible Assets	Depreciation Method	Estimated Useful Life
Buildings and structures	Straight-line method	40 years
Leasehold improvements	Declining balance method	4-5 years
Equipment and vehicles	Declining balance method	4-5 years

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

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

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

Intangible Assets	Amortization Method	Estimated Useful Life
Goodwill	Straight-line method	9 years
Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years
Others	Straight-line method	5-30 years

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

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

Stock Issuance Costs and Debenture Issuance Costs

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

Accrued Retirement Benefits

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

Deferred Income Taxes

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

Bonds under Repurchase/Resale Agreements

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

Derivative Instruments

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

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

Stock Options

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

National Housing Fund

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

Gains and Losses on Trust Management

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

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

Foreign Currency Translation

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

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

Statement of Cash Flows

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

Consolidation Adjustment

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

	(in millions of Won)	
	2003	2002
Aggregate balances of each entity	₩ (719,051)	₩ 1,069,429
Consolidation adjustments:		
Reversal of the equity method	-	(893)
Minority interest in earnings or losses, net	(76,502)	65,260
Equity loss (gains) on investments	(244,558)	267,419

Continued;

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	(in millions of Won)	
	Net Income (Loss)	
	2003	2002
Merger of consolidated affiliates	₩ 284,373	₩ (81,502)
Sale of consolidated affiliates	-	(59,077)
Reversal of allowances for loan losses	(541)	(318)
Reversal of gain or losses on derivatives	-	1,342
Change in exchange rates	-	(3,286)
Reversal of trust reserves	10,373	10,006
Other consolidation adjustments	4,156	2,928
	(22,699)	201,879
Balances in the consolidated financial statements	₩ (741,750)	₩ 1,271,308

Application of Korean Financial Accounting Standard No. 6

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

3. Cash and Due from Banks

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

	(in millions of Won)	
	2003	2002
Cash on hand		
Cash in Won	₩ 2,945,921	₩ 2,393,118
Cash in foreign currencies	228,153	186,780
	3,174,074	2,579,898
Due from banks in Won		
Bank of Korea	2,612,248	1,340,482
Other banks	23,171	99,849
Other financial institutions	140,094	140,000
Others	17,569	108,664
	2,793,082	1,688,995
Present value discounts ^{1*}	(12,810)	(21,156)
	2,780,272	1,667,839
Due from banks in foreign currencies		
Bank of Korea	12,415	25,677
Domestic banks	3,450	10,221
Foreign banks	104,970	220,763
Other banks	108,420	230,984
Off-shore	482,115	281,174
Others	3,355	5,064
	606,305	542,899
	₩ 6,560,651	₩ 4,790,636

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Due from Banks in Won	Due from Banks in Foreign Currencies	Total
Due in 3 months or less	₩ 2,652,272	₩ 510,499	₩ 3,162,771
Due after 3 months through 6 months	-	95,806	95,806
Due after 6 months through 1 year	50,154	-	50,154
Due after 1 year through 2 years	90,000	-	90,000
Due after 2 years through 3 years	-	-	-
Due after 5 years	656	-	656
	₩ 2,793,082	₩ 606,305	₩ 3,399,387

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

(in millions of Won)

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

4. SECURITIES

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

(in millions of Won)

	2003	2002
Trading	₩ 7,178,248	₩ 9,273,445
Available-for-sale	17,189,839	15,217,208
Held-to-maturity	5,991,930	12,313,049
Investment in associates	171,050	58,604
	₩ 30,531,067	₩ 36,862,306

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

(in millions of Won)

Trading	Unrealized		Book Value	Fair Value
	Gain	Loss		
Equity securities	₩ 22,735	₩ 9,385	₩ 139,285	₩ 139,285
Beneficiary certificates	69,553	240	1,689,388	1,689,388
Government and municipal bonds	1,547	4,032	1,610,359	1,610,359
Corporate bonds	1,147	14,514	3,354,929	3,354,929
Asset-backed securities	204	1,217	384,287	384,287
	₩ 95,186	₩ 29,388	₩ 7,178,248	₩ 7,178,248

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

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

(in millions of Won)

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

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

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

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

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

(in millions of Won)

	Unrealized		Book Value	Fair Value
	Gain	Loss		
Equity securities	₩ 654	₩ 39,754	₩ 95,501	₩ 95,501
Beneficiary certificates	166,851	5,429	3,862,439	3,862,439
Government and municipal bonds	7,930	13,021	976,166	976,166
Corporate bonds	13,933	12,678	4,299,529	4,299,529
Asset-backed securities	-	-	39,810	39,810
	₩ 189,368	₩ 70,882	₩ 9,273,445	₩ 9,273,445

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

Available-for-Sale	Impairment		Capital Adjustments		Book Value	Fair Value ^{1*}
	Reversal of	Loss	Gain	Loss		
Equity securities	₩ 15,318	₩ 293,696	₩ 25,874	₩ 38,805	₩ 711,433	₩ 711,433
Investment in funds	-	4,187	-	854	52,247	52,247
Beneficiary certificates	-	-	62,246	5,662	5,162,573	5,162,573
Government and municipal bonds	-	-	40,609	184	2,278,363	2,278,363
Foreign government bonds	-	-	2,864	374	20,007	20,007
Corporate bonds	-	68,468	103,710	10,325	6,473,136	6,473,136
Asset-backed securities	12,380	10,044	1,664	-	519,371	519,371
Other debt securities	-	-	-	-	78	78
	₩ 27,698	₩ 376,395	₩ 236,967	₩ 56,204	₩ 15,217,208	₩ 15,217,208

(in millions of Won)

Held-to-Maturity	Impairment		Unrealized Holding		Book Value	Fair Value
	Reversal of	Loss	Gain	Loss		
Government and municipal bonds	₩ -	₩ -	₩ 108,283	₩ 153	₩ 2,382,756	₩ 2,490,886
Foreign government bonds	-	-	-	-	36,678	36,678
Corporate bonds	-	-	176,777	2,082	7,606,017	7,780,710
Asset-backed securities	-	-	14,693	-	2,287,598	2,302,291
	₩ -	₩ -	₩ 299,753	₩ 2,235	₩ 12,313,049	₩ 12,610,565

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

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

(in millions of Won)

Domestic Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance [*]	Equity Method			Book Value	
				N/I	R/E	C/A	2003	2002
ING Life Korea	20.00	₩ 21,769	₩ 21,613	₩ 22,278	₩ -	₩ (46)	₩ 43,845	₩ 21,613
Korea Mortgage	26.67	30,629	33,566	2,475	(57)	(196)	35,788	33,566
KLB Securities	36.41	10,316	-	-	-	-	-	-
Jeio	21.14	750	547	(3)	-	-	544	547
Joeun Industrial	99.99	23,994	-	-	-	-	-	-
KB Luxembourg S.A	100.00	26,295	6,102	(1,275)	-	1,123	5,950	-
Kookmin Finance Asia Ltd.	100.00	8,385	279	7	-	-	286	279
Kookmin Singapore, Ltd	100.00	14,096	2,080	-	-	-	2,080	2,085
Sorak Financial Holdings	25.00	71,295	71,295	-	-	-	71,295	-
KIKO No.3 Venture Investment Partnership	11.15	290	299	42	-	-	341	-
Pacific IT Investment Partnership	10.00	1,400	-	-	-	-	-	-

Continued;

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

Domestic Associates	Owner-ship (%)	Acquisition Cost	Beginning Balance ^{1*}	Equity Method			Book Value	
				N/I	R/E	C/A	2003	2002
Kookmin China Fund No.1	50.00	3,000	2,609	(74)	-	-	2,535	-
KITC Kookmin Venture Fund No.1	20.00	2,000	2,010	(681)	-	-	1,329	-
NPC 02-4 Kookmin Venture Fund	16.67	5,000	5,056	34	-	-	5,090	-
Kookmin Investment Partnership No. 13	33.33	1,000	238	132	-	-	370	-
Millennium Tour Kookmin Investment Partnership No. 15	34.00	1,700	607	(260)	-	-	347	-
Kookmin Investment Partnership No. 16	20.00	400	-	-	-	-	-	-
KB 03-1 Venture Investment Fund	16.67	1,250	1,250	-	-	-	1,250	-
Korea Asset Investment Corp.	48.60	-	-	-	-	-	-	514
		₩ 223,569	₩ 147,551	₩ 22,675	₩ (57)	₩ 881	₩ 171,050	₩ 58,604

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

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

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

Maturities	Available-for-Sale		Held-to-Maturity	
	Book Value	Fair Value	Book Value	Fair Value
Due in 1 year or less	₩ 9,637,524	₩ 9,637,524	₩ 1,824,339	₩ 1,837,011
Due after 1 year through 5 years	6,558,628	6,558,628	3,915,607	4,047,807
Due after 5 years through 10 years	445,043	445,043	251,984	267,584
Thereafter	15,609	15,609	-	-
	₩ 16,656,804	₩ 16,656,804	₩ 5,991,930	₩ 6,152,402

Investment securities risk concentrations as of December 31, 2003 and 2002 are as follows:

(in millions of Won)

By Country	2003		2002	
	Book Value	Ratio (%)	Book Value	Ratio (%)
Korea	₩ 30,203,882	98.93	₩ 36,516,704	99.06
Singapore	79,309	0.26	10,252	0.03
USA	64,976	0.21	85,220	0.23
Philippines	45,921	0.15	66,708	0.18
Germany	29,961	0.10	30,010	0.08
Others	107,018	0.35	153,412	0.42
	₩ 30,531,067	100.00	₩ 36,862,306	100.00

(in millions of Won)

By Type	2003		2002	
	Book Value	Ratio (%)	Book Value	Ratio (%)
Fixed rate bonds	₩ 18,631,741	61.02	₩ 19,802,049	53.72
Floating rate bonds	2,591,973	8.49	6,362,124	17.26
Subordinated bonds	767,418	2.51	578,774	1.57
Convertible bonds	423,958	1.39	149,414	0.41
Beneficiary certificates	7,255,954	23.77	9,033,015	24.5
Equity securities	790,385	2.59	865,880	2.35
Others	69,638	0.23	71,050	0.19
	₩ 30,531,067	100.00	₩ 36,862,306	100.00

(in millions of Won)

By Industry	2003		2002	
	Book Value	Ratio (%)	Book Value	Ratio (%)
Government and municipalities	₩ 10,569,435	34.62	₩ 13,964,515	37.88
Financial institutions	17,693,458	57.95	17,801,216	48.29
Manufacturing industries	809,389	2.65	781,125	2.12
Others	1,458,785	4.78	4,315,450	11.71
	₩ 30,531,067	100.00	₩ 36,862,306	100.00

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Acquisition Cost	Net Asset Value ^{1*}	Book Value
Korea Housing Guarantee Co., Ltd.	₩ 72,421	₩ 123,784	₩ 71,857
Dongbu Electronics Co., Ltd.	30,000	22,059	22,059
Mastercard, Inc.	11,118	6,524	11,118
The Korea Securities Finance Corp.	8,460	11,384	8,460
Asia Credit	11,978	8,014	8,014
Korea Asset Management Corp.	7,827	12,436	7,827
Samsung Life Insurance Co., Ltd.	7,479	9,062	7,479
Daewoo Electronics Corp.	9,862	7,293	7,109
Korea Highway Corp.	6,248	5,892	6,248
BC Card Co., Ltd.	5,738	7,630	5,738
Daewoo Motor Co., Ltd.	5,633	11,768	5,633
E Mirae Asset Securities Co., Ltd.	5,000	8,302	5,000
Hanwha Investment Trust Management Co., Ltd.	3,487	3,503	3,487
Korea Vilene Co., Ltd.	3,000	3,662	3,000
National Information & Credit Evaluation, Inc.	2,668	4,209	2,668
Nanjing Kumho Tire Co., Ltd.	2,548	2,678	2,548
Baring Communication	5,588	2,282	2,282
Kyobo Investment Trust Management Co., Ltd.	2,100	3,417	2,100
Others	209,400	97,107	87,015
	₩ 410,555	₩ 351,006	₩ 269,642

^{1*} Net asset values are calculated using the unaudited financial statements of the investees as of December 31, 2003 when available, otherwise, the most recent financial information is used.

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

(in millions of Won)

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

5. LOANS

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

		(in millions of Won)	
		2003	2002
Loans in Won			
Corporate loans	Operation loans		
	General operation loans	₩ 28,863,025	₩ 28,797,513
	Notes discounted	1,415,445	1,851,133
	Overdraft accounts	447,992	568,702
	Trading notes	809,921	814,759
	Other operation loans	3,793,594	3,229,851
		35,329,977	35,261,958
	Facility loans		
	General facility loans	5,413,333	4,676,506
	Other facility loans	1,218,369	1,287,125
		6,631,702	5,963,631
		41,961,679	41,225,589
Consumer loans	General consumer loans	41,952,638	39,970,876
	Consumer housing loans	38,199,384	33,731,435
	Remunerations on mutual installment savings	297,868	131,768
	Other consumer loans	635,217	632,172
		81,085,107	74,466,251
Public loans	Public operation loans	526,227	738,632
	Public facility loans	42,473	39,414
		568,700	778,046
Trust accounts	Loans on real estate collateral	134,984	153,105
Other loans	Property formation loans	62,963	95,252
	Inter-bank loans	12,815	20,941
	Others	3,963	5,450
		79,741	121,643
		123,830,211	116,744,634
Loans in foreign currencies	Domestic funding loans	1,212,261	1,196,510
	Off-shore funding loans	863,062	896,998
	Inter-bank loans	623,683	816,406
	Government funding loans	1,477	3,241
	Domestic usance bills	1,200,385	1,346,044
		3,900,868	4,259,199
Call loans	In Won	1,640,000	33,600
	In foreign currencies	19,448	195,741
	Inter-bank reconciliation funds	-	89,287
		1,659,448	318,628
Privately placed debentures		1,794,231	1,285,279
Other loans		12,458,364	15,878,242
Allowances for loan losses (Note 6)		(3,702,655)	(3,311,861)
Present value discounts		(22,826)	(30,509)
Net deferred loan origination fees and costs		8,567	-
		₩ 139,926,208	₩ 135,143,612

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Period (Years)	Balances Before Restructuring	Exemption	Equity Conversion	CB Conversion	Restructured Amount	Present Value Discounts
Workout	1 - 6	₩ 696,945	₩ -	₩ -	₩ 581,075	₩ 115,870	₩ 6,229
Court receivership	5 - 10	41,426	154	-	27,009	14,263	3,502
Court mediation	5 - 6	41,789	-	-	-	41,789	2,437
Others ^{1*}	2 - 7	530,216	335,799	134	3,668	190,615	10,658
		₩ 1,310,376	₩ 335,953	₩ 134	₩ 611,752	₩ 362,537	₩ 22,826

1* The Bank wrote off ₩246,839 million of loans to SK Networks, (formerly SK Global) in expectation of a cash buy out restructuring. The resulting SK Networks loan balances as of December 31, 2003 amounts to ₩88,960 million.

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

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

(in millions of Won)

	WACC (%)	Beginning Balance	Increase	Decrease	Ending Balance
Present value discounts	6.10 - 17.00	₩ (30,509)	₩ (11,767)	₩ (19,450)	₩ (22,826)
Deferred loan incidental income		-	9,161	594	8,567
		₩ (30,509)	₩ (2,606)	₩ (18,856)	₩ (14,259)

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

(in millions of Won)

	Loans in Won	Loans in Foreign Currencies	Bills Bought	Credit Card	Call Loans	Privately Placed Debentures	Others	Total
Due in 3 months or less	₩ 16,316,065	₩ 1,071,398	₩ 497,351	₩ 6,549,874	₩ 1,659,448	₩ 561,682	₩ 1,600,828	₩ 28,256,646
Due after 3 months through 6 months	15,580,949	850,052	53,382	1,098,040	-	166,238	37	17,748,698
Due after 6 months through 1 year	30,835,868	437,899	7,589	1,280,289	-	300,234	606	32,862,485
Due after 1 year through 2 years	26,545,760	178,374	7,153	615,736	-	503,084	4,594	27,854,701
Due after 2 years through 3 years	19,016,865	308,148	6,191	334,413	-	261,364	-	19,926,981
Due after 3 years through 4 years	2,760,728	116,537	-	15,051	-	650	30,802	2,923,768
Due after 4 years through 5 years	2,535,812	103,794	-	318,037	-	-	-	2,957,643
Thereafter	10,238,164	834,666	-	38,391	-	979	-	11,112,200
	₩ 123,830,211	₩ 3,900,868	₩ 571,666	₩ 10,249,831	₩ 1,659,448	₩ 1,794,231	₩ 1,636,867	₩ 143,643,122

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Korea	₩ 123,830,211	₩ 2,995,491	₩ 15,866,259	₩ 142,691,961	99.34
Southeast Asia	-	383,133	304	383,437	0.27
Russia	-	131,758	-	131,758	0.09
China	-	30,632	1	30,633	0.02
Japan	-	278,109	42	278,151	0.19
Others	-	81,745	45,437	127,182	0.09
	₩ 123,830,211	₩ 3,900,868	₩ 15,912,043	₩ 143,643,122	100.00

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

(in millions of Won)

	Loans in Won	Loans in Foreign Currencies	Others	Total	Percentage (%)
Industrial loans					
Financial institutions	₩ 596,281	₩ 652,414	₩ 2,369,514	₩ 3,618,209	2.52
Manufacturing companies	13,909,267	1,596,823	1,178,803	16,684,893	11.62
Service companies	23,069,029	592,593	557,602	24,219,224	16.86
Others	4,859,159	124,443	1,405,044	6,388,646	4.44
	42,433,736	2,966,273	5,510,963	50,910,972	35.44
Household loans	81,271,608	914,545	8,897,467	91,083,620	63.41
Public and other loans	124,867	20,050	1,503,613	1,648,530	1.15
	₩ 123,830,211	₩ 3,900,868	₩ 15,912,043	₩ 143,643,122	100.00

6. ALLOWANCES FOR LOAN LOSSES

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

(in millions of Won)

	2003	2002
Loans in Won	₩ 2,278,644	₩ 1,949,602
Loans in foreign currencies	71,401	113,034
Bills bought in Won and foreign currencies	16,941	20,213
Payments on guarantees	19,967	18,467
Factoring receivable	16,486	13,798
Credit card accounts	1,187,616	1,134,386
Privately placed debentures	88,822	34,365
Loans due for equity conversion	-	5,373
Others	22,778	22,623
	₩ 3,702,655	₩ 3,311,861

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Balance	₩ 115,042,797	₩ 5,345,560	₩ 2,277,301	₩ 936,426	₩ 209,619	₩ 123,811,703
	Allowances	773,975	298,198	494,492	502,360	209,619	2,278,644
	Ratio (%)	0.67	5.58	21.71	53.65	100.00	1.84
Loans in foreign currencies	Balance	3,574,480	249,987	38,816	32,708	1,939	3,897,930
	Allowances	14,803	17,072	16,645	20,942	1,939	71,401
	Ratio (%)	0.41	6.83	42.88	64.03	100.00	1.83
Bills bought	Balance	508,674	54,354	1,850	3,030	3,757	571,665
	Allowances	2,552	8,687	430	1,515	3,757	16,941
	Ratio (%)	0.50	15.98	23.24	50.00	100.00	2.96
Payments on guarantees	Balance	42,754	6,347	19,539	10,903	9,896	89,439
	Allowances	214	498	3,908	5,451	9,896	19,967
	Ratio (%)	0.50	7.85	20.00	50.00	100.00	22.32
Credit card accounts	Balance	7,239,554	1,626,508	400	1,158,525	224,844	10,249,831
	Allowances	72,396	195,181	80	695,115	224,844	1,187,616
	Ratio (%)	1.00	12.00	20.00	60.00	100.00	11.59
Bonds purchased under resale agreements	Balance	1,500,000	-	-	-	-	1,500,000
	Allowances	-	-	-	-	-	-
	Ratio (%)	-	-	-	-	-	-
Call loans	Balance	1,659,448	-	-	-	-	1,659,448
	Allowances	-	-	-	-	-	-
	Ratio (%)	-	-	-	-	-	-
Privately placed debentures	Balance	1,368,669	409,352	7,555	7,472	1,147	1,794,195
	Allowances	6,816	75,048	2,064	3,747	1,147	88,822
	Ratio (%)	0.50	18.33	27.32	50.15	100.00	4.95
Factoring receivables	Balance	29,685	-	-	125	16,275	46,085
	Allowances	148	-	-	63	16,275	16,486
	Ratio (%)	0.50	-	-	50.40	100.00	35.77
Total	Balance ^{1*}	₩ 130,966,061	₩ 7,692,108	₩ 2,345,461	₩ 2,149,189	₩ 467,477	₩ 143,620,296
	Allowances ^{2*}	870,904	594,684	517,619	1,229,193	467,477	3,679,877
	Ratio (%)	0.66	7.73	22.07	57.19	100.00	2.56

1* The above amounts of loan balances are net of present value discounts.

2* The above amounts of allowances for loan losses do not include other allowances

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

	(in millions of Won)	
	2003	2002
Beginning balance	₩ 3,311,861	₩ 2,641,170
Provision for loan losses ^{1*}	6,026,905	3,196,161
Collection of written-off loans	1,340,414	284,145
Repurchase of loans sold	426,207	6,424
Sale of loans	(659,239)	(113,414)
Write-off of loans	(6,371,323)	(2,552,014)
Conversion of loans into equity securities	(43,996)	(136,185)
Exemption of loans	(272,576)	(8,364)
Offset with present value discounts from troubled debt restructuring	(7,482)	238
Changes in exchange rates and others	(47,442)	77,422
Changes in scope of consolidated subsidiaries	(674)	(83,722)
Ending balance	₩ 3,702,655	₩ 3,311,861

1* Includes increase due to the merger with Kookmin Credit Card Co., amounting to ₩1,388,854 million, recognized as non-operating expenses.

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

	2003	2002	2001
Loans ^{1*}	₩ 143,620,296	₩ 138,455,473	₩ 118,981,891
Allowances for loan losses ^{2*}	3,679,877	3,289,238	2,641,170
Ratio (%)	2.56	2.38	2.22

1* The above amounts of loans are net of present value discounts.

2* The above amounts of allowances for loan losses do not include the other allowances.

7. FIXED ASSETS

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

	2003	2002
Tangible assets	₩ 2,472,816	₩ 2,724,363
Intangible assets	551,356	632,115
Foreclosed and other properties	776	3,680
	₩ 3,024,948	₩ 3,360,158

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Land	Buildings and Structures	Leasehold Improvement	Equipment and Vehicle	Construction in-Progress	Total
Acquisition cost						
Beginning balances	₩ 1,231,177	₩ 919,541	₩ 110,986	₩ 1,293,812	₩ 1,195	₩ 3,556,711
Acquisition	3,432	9,218	8,026	229,580	97,112	347,368
Transfer	-	37,466	48,517	-	(85,983)	-
Changes in scope of consolidated subsidiaries	-	-	-	(448)	-	(448)
Disposal	(128,693)	(2,839)	(9,566)	(61,618)	-	(202,716)
Ending balances	1,105,916	963,386	157,963	1,461,326	12,324	3,700,915
Accumulated depreciation						
Beginning balances	-	120,353	52,629	659,366	-	832,348
Depreciation expense	-	21,603	41,354	373,592	-	436,549
Changes in scope of consolidated subsidiaries	-	-	-	(388)	-	(388)
Disposal	-	152	(2,593)	(60,197)	-	(62,638)
Ending balances	-	142,108	91,390	972,373	-	1,205,871
Impairment	-	22,228	-	-	-	22,228
Book value	₩ 1,105,916	₩ 799,050	₩ 66,573	₩ 488,953	₩ 12,324	₩ 2,472,816

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

(in millions of Won)

	Amount Insured	Insurance Company	Type of Insurance
Buildings and structures	₩ 655,890	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Leasehold improvement	52,612	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
Equipment and vehicles	279,203	Samsung Fire & Marine Insurance Co., Ltd, etc.	General property insurance
Construction in-progress	9,860	Samsung Fire & Marine Insurance Co., Ltd	General property insurance
	₩ 997,565		

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

(in millions of Won)

	Goodwill	Negative Goodwill	Development Costs	Rights to Income on Donated Asset	Store Possessory Right	Trade-marks	Others	Total
Beginning balances	₩ 613,705	₩ (300)	₩ 16,301	₩ 110	₩ 161	₩ 11	₩ 2,127	₩ 632,115
Acquisition	-	-	83	-	-	158	1,807	2,048
Amortization	78,345	(69)	3,622	8	22	19	860	82,807
Ending balances	₩ 535,360	₩ (231)	₩ 12,762	₩ 102	₩ 139	₩ 150	₩ 3,074	₩ 551,356

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

The Consolidated Company recorded ₩113,217 million and ₩110,091 million of current development costs under general and administrative expenses for the years ended December 31, 2003 and 2002, respectively.

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

	2003		2002	
	Book Value	Appraisal Value	Book Value	Appraisal Value
Lands included in tangible assets	₩ 1,105,916	₩ 986,383	₩ 1,231,177	₩ 1,023,116
Lands included in foreclosed assets	1,315	591	1,923	931
	₩ 1,107,231	₩ 986,974	₩ 1,233,100	₩ 1,024,047

8. OTHER ASSETS

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

	2003	2002
Guarantee deposits paid	₩ 1,345,715	₩ 1,342,223
Accounts receivable	1,717,666	1,887,952
Accrued income	1,051,818	1,278,215
Payments in advance	92,661	59,331
Prepaid expenses	313,383	148,825
Deferred income tax assets (Note 26)	563,872	188,012
Derivative assets (Note 15)	752,523	668,049
Unsettled domestic exchange assets	612,592	1,087,587
Loans to trust accounts	335,384	361,444
Others	47,301	41,131
(Allowances for losses)	(102,751)	(93,263)
	₩ 6,730,164	₩ 6,969,506

9. DEPOSITS

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

	Annual Interest (%) December 31, 2003	2003	2002
Deposits in Won			
Demand deposits			
Checking deposits	-	₩ 125,533	₩ 134,222
Household checking deposits	0.10	476,132	469,866
Passbook deposits	0.10	10,000,895	8,586,219
Temporary deposits	-	3,292,770	3,577,243
Public fund deposits	0.10	190,593	207,695
Margin deposits	-	10,180	13,038
Others	0.10	24,218	12,497
		₩ 14,120,321	₩ 13,000,780

Continued;

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

	Annual Interest (%) December 31, 2003	2003	2002
Time deposits and savings deposits			
Time deposits	2.90 - 4.40	₩ 62,174,532	₩ 58,129,997
Installment savings deposits	3.60 - 4.30	1,306,793	1,422,532
Property formation savings	8.50	1,870	2,221
Time and savings deposits of non-residents in Won	2.90 - 4.40	338,971	151,124
General savings deposits	0.10 - 3.30	21,644,066	21,346,223
Corporate free savings deposits	0.10 - 3.20	7,790,498	6,556,979
Long-term savings deposits for workers	8.79	69,031	297,272
Long-term housing savings deposits	5.00	983,684	538,782
Long-term savings for households	4.89	494,606	2,250,457
Worker's preferential savings deposits	5.35	2,728,236	2,877,467
Worker's savings for housing	2.50	81	79
Mutual installment deposits	3.20 - 4.50	7,054,752	7,491,115
Mutual installment for housing	2.95 - 4.30	5,423,853	4,872,637
Money trust	0.00-8.00	3,190,062	3,697,202
		113,201,035	109,634,087
		127,321,356	122,634,867
Deposits in foreign currencies			
Demand deposits			
Checking deposits	0.00 - 1.32	40,778	29,629
Passbook deposits	0.08 - 0.11	787,798	549,646
Notice deposits	0.00 - 0.22	410	2,725
Temporary deposits	-	1,048	3,796
		830,034	585,796
Time deposits and savings deposits			
Time deposits	0.16 - 1.57	719,338	624,715
Others	0.00 - 4.45	3,300	1,493
		722,638	626,208
		1,552,672	1,212,004
Certificates of deposit	3.45 - 3.95	6,499,258	3,044,089
		₩ 135,373,286	₩ 126,890,960

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

(in millions of Won)

	Deposits in Won	Deposits in Foreign Currencies	Certificates of Deposit	Total
Due in 3 months or less	₩ 68,691,124	₩ 1,316,419	₩ 4,011,260	₩ 74,018,803
Due after 3 months through 6 months	13,062,936	125,373	1,634,701	14,823,010
Due after 6 months through 1 year	31,231,779	61,249	853,297	32,146,325
Due after 1 year through 2 years	7,728,012	47,095	-	7,775,107
Due after 2 years through 3 years	3,053,043	2,463	-	3,055,506
Due after 3 years through 4 years	620,238	73	-	620,311
Due after 4 years through 5 years	457,266	-	-	457,266
Thereafter	2,476,958	-	-	2,476,958
	₩ 127,321,356	₩ 1,552,672	₩ 6,499,258	₩ 135,373,286

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

10. BORROWINGS

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

(in millions of Won)

	Annual Interest (%) December 31, 2003	2003	2002
Borrowings in Won			
Borrowings from the Bank of Korea	2.50	₩ 992,433	₩ 671,854
Borrowings from the government	0.00 - 8.00	932,804	1,070,912
Borrowings from banking institutions	3.54 - 8.55	263,822	2,460,871
Borrowings from the National Housing Fund	8.00	110,351	126,085
Borrowings from other financial institutions	2.00 - 5.00	5,688	3,381,211
Other borrowings	2.00 - 7.00	1,176,156	1,130,930
		3,481,254	8,841,863
Borrowings in foreign currencies			
Due to banks	-	180,493	48,705
Borrowings from domestic banks	0.09 - 7.40	2,360,652	2,502,902
Borrowings from other financial institutions	5.13	19,486	23,092
Borrowings from foreign banks	-	507,377	566,052
		3,068,008	3,140,751
Bonds sold under repurchase agreements			
In Won	2.50 - 4.10	3,613,505	3,050,179
In foreign currencies	1.54	9,651	23,982
		3,623,156	3,074,161
Bills sold	3.40 - 3.85	44,239	72,860
Due to the Bank of Korea in foreign currencies	-	12,608	37,493
Call money			
In Won	3.25 - 3.40	55,800	229,300
In foreign currencies	0.88 - 5.15	169,744	76,666
Inter-bank borrowings	-	296,011	-
		521,555	305,966
		₩ 10,750,820	₩ 15,473,094

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

(in millions of Won)

	Borrowings in Won	Borrowings in Foreign Currencies	Others	Total
Due in 3 months or less	₩ 1,179,984	₩ 349,510	₩ 2,348,761	₩ 3,878,255
Due after 3 months through 6 months	149,891	1,132,792	762,272	2,044,955
Due after 6 months through 1 year	214,710	819,346	1,080,874	2,114,930
Due after 1 year through 2 years	417,652	415,564	9,651	842,867
Due after 2 years through 3 years	373,680	256,541	-	630,221
Due after 3 years through 4 years	305,461	-	-	305,461
Due after 4 years through 5 years	254,333	50,773	-	305,106
Thereafter	585,543	43,482	-	629,025
	₩ 3,481,254	₩ 3,068,008	₩ 4,201,558	₩ 10,750,820

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

11. DEBENTURES

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

		(in millions of Won)		
		Annual Interest (%) December 31, 2003	2003	2002
In Won	Hybrid debentures ^{1*}	6.00 - 7.00	₩ 903,668	₩ -
	Subordinated fixed rate debentures	6.07 - 15.66	4,896,072	4,863,125
	Fixed rate debentures	2.25 - 8.15	3,949,995	-
	Floating rates debentures	3.92 - 8.71	8,619,663	17,972,223
			18,369,398	22,835,348
	Discounts on debentures		(83,443)	(273,702)
			18,285,955	22,561,646
In foreign currencies	Floating rates debentures	0.60 - 1.99	196,211	123,136
	Fixed rates debentures	1.08 - 4.63	613,549	666,991
		1.82 - 1.92	78,695	101,034
			888,455	891,161
	Premiums on debentures		9,639	-
	Discounts on debentures		(1,473)	(2,461)
		896,621	888,700	
		₩ 19,182,576	₩ 23,450,346	

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

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

(in hundred millions of Won)				
Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	97.12.29 - 98.8.27	₩ 2,653	15.02 - 16.00	03.01.27 - 09.11.15
	2000.03.27	2,000	9.65	2005.03.27
	2000.06.28	2,540	9.04 - 9.10	2006.01.28
	2000.09.27	3,000	8.99	2006.01.27
	2000.09.28	1,500	8.79 - 8.85	2006.01.28
	2000.11.28	1,000	8.65 - 8.71	2006.02.28
	2000.11.28	1,620	9.57 - 9.65	2010.11.28
	2000.12.27	2,000	8.71	2006.01.27
	2001.05.28	2,000	7.60 - 7.65	2007.02.28
	2001.06.27	1,600	7.68	2008.03.27
	2001.06.27	2,175	7.86	2009.03.27
	2001.08.28	1,000	6.69 - 6.73	2007.08.28
	2001.09.28	1,500	6.69 - 6.73	2008.03.28
	2002.03.27	2,417	7.06 - 7.10	2008.01.27
	2002.07.27	3,024	6.96 - 7.00	2008.01.27
	2002.09.27	2,574	6.27 - 6.30	2008.03.27
	2002.09.27	₩ 1,500	6.51 - 6.55	2010.03.27

Continued;

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

(in hundred millions of Won)

Type	Issue Date	Amount	Annual Interest (%)	Maturity
Subordinated fixed rate debentures	2002.09.27	₩ 926	6.66 - 6.70	2013.03.27
	2002.11.27	4,007	6.07 - 6.10	2008.05.27
	2002.11.27	578	6.27 - 6.30	2010.05.27
	2002.11.27	1,003	6.51 - 6.55	2013.05.27
	2002.12.18	1,100	8.00	2008.01.18
	2002.12.27	304	6.55	2014.12.27
	2002.12.27	100	6.20	2008.06.27
	2002.12.27	900	6.40	2010.06.27
	2002.12.27	500	6.65	2013.06.27
	2003.01.21	500	7.65	2008.02.21
	2003.03.10	450	7.10	2008.04.10
	2003.10.27	3,565	5.18 - 5.20	2009.01.27
	2003.10.27	888	5.33 - 5.35	2011.01.27
	2003.10.27	37	5.58 - 5.60	2014.01.27
			48,961	
Hybrid debentures	2003.06.27	1,051	6.00	2033.06.27
	2003.08.27	5,334	7.00	2033.08.27
	2003.10.27	2,652	6.80	2033.10.27
			9,037	
			₩ 57,998	

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

(in millions of Won)

	Won	Foreign Currencies	Total
Due in 3 months or less	₩ 4,436,526	₩ -	₩ 4,436,526
Due after 3 months through 6 months	1,825,241	85,044	1,910,285
Due after 6 months through 1 year	3,966,555	80,566	4,047,121
Due after 1 year through 2 years	2,063,640	87,627	2,151,267
Due after 2 years through 3 years	1,327,851	-	1,327,851
Due after 3 years through 4 years	374,712	597,377	972,089
Due after 4 years through 5 years	2,049,213	37,841	2,087,054
Thereafter	2,325,660	-	2,325,660
	₩ 18,369,398	₩ 888,455	₩ 19,257,853

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

12. ACCRUED RETIREMENT BENEFITS

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

	(in millions of Won)				
	Beginning Balance	Amounts Provided	Amounts Paid Out	Exchange Rate Difference	Ending Balance
Accrued retirement benefits	₩ 51,322	₩ 59,224	₩ 37,406	₩ 14	₩ 73,154
Contributed retirement benefits	99,161	70,168	1,639	-	167,690
Total accrued retirement benefits	150,483	129,392	39,045	14	240,844
Contribution to the National Pension Fund	(206)	-	(123)	-	(83)
Contribution to pension funds	(99,161)	(70,168)	(1,639)	-	(167,690)
	₩ 51,116	₩ 59,224	₩ 37,283	₩ 14	₩ 73,071

As of December 31, 2003, approximately 69.63% of total accrued retirement benefits are contributed to pension funds, to which the Bank's employees hold the right of payment, placed at two insurance companies, including Korea Life Insurance Co., Ltd.

13. OTHER LIABILITIES

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

Account	(in millions of Won)	
	2003	2002
Accrued retirement benefits (Note 12)	₩ 73,071	₩ 51,116
Allowance for losses on guarantees and acceptances (Note 14)	1,074	2,304
Due to trust accounts	3,508,144	633,555
Accounts payable	1,908,765	2,089,971
Accrued expenses	4,479,084	5,257,319
Advances from customers	110,925	253,593
Unearned income	135,880	152,423
Withholding taxes	123,570	92,425
Guarantee deposits received	110,884	108,705
Derivative liabilities (Note 15)	688,045	289,081
Unsettled domestic exchange liabilities	400,445	541,757
Accounts for agency business	338,748	526,887
Other allowances ^{1*}	649,804	50,973
Liabilities incurred by agency relationship	315,241	486,413
Others	134,632	94,961
	₩ 12,978,312	₩ 10,631,483

^{1*} Other allowances are as follows:

Notes to Consolidated Financial Statements

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(in millions of Won)

Allowances for	Amounts	Remarks
Suspense receivables	₩ 7,249	Allowances for frauds/accidents and litigation fee
Loss on branch closure	287	Allowances for closure of the Buenos Aires branch
Uncollected leasehold deposits	8,854	Allowances for uncollected leasehold deposits
Credit card receivables	33,105	Allowances for unused cash advance credit lines
Mileage rewards	37,938	Allowances for mileage on credit cards and currency exchange rates
Claimed assets	27,291	Allowances for credit card claimed assets
Credit commitments to SPCs	141,175	Allowances for the credit line commitment to SPC (Note 16)
Securitization allowances	19,284	Allowances for repurchase obligations from asset securitization (Note 16)
KAMCO loans sold	589	Allowances for loans under repurchase agreements to KAMCO (Note 16)
Supplementary payments for income taxes	142,021	Allowances for supplementary payments for income taxes (Note 16)
Others	232,011	
	₩ 649,804	

14. GUARANTEES AND ACCEPTANCES

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

(in millions of Won)

	2003	2002
Guarantees and acceptances outstanding in Won		
Guarantees on debentures	₩ 541	₩ 571
Guarantees on loan collateral	44,932	39,234
Guarantees on commercial bills	-	646
Others	235,843	251,833
	281,316	292,284
Foreign Currencies		
Acceptances on letters of credit	134,888	203,939
Acceptances for letters of guarantee for importers	88,743	111,016
Guarantees for performance of contracts	16,689	71,577
Guarantees for bids	1,067	1,077
Guarantees for borrowings	37,843	31,055
Guarantees for repayment of advances	10,004	25,707
Others	240,613	311,582
	529,847	755,953
	811,163	1,048,237
Contingent guarantees and acceptances		
Letters of credit	1,209,556	1,253,640
Others	81,290	63,524
	1,290,846	1,317,164
	₩ 2,102,009	₩ 2,365,401

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

Guarantees and Acceptances Outstanding in		Normal	Precautionary	Substandard	Doubtful	Estimated Loss	Total
Won	Balance	₩ 262,950	₩ 18,106	₩ 80	₩ -	₩ 180	₩ 281,316
	Allowance	-	-	16	-	180	196
	Ratio (%)	-	-	20.00	-	100.00	0.07
Foreign currencies	Balance	462,442	66,333	300	654	118	529,847
	Allowance	-	314	119	327	118	878
	Ratio (%)	-	0.47	39.67	50.00	100.00	0.17
Total	Balance	₩ 725,392	₩ 84,439	₩ 380	₩ 654	₩ 298	₩ 811,163
	Allowance	-	314	135	327	298	1,074
	Ratio (%)	-	0.37	35.53	50.00	100.00	0.13

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

(in millions of Won)

	2003	2002
Beginning balance	₩ 2,304	₩ 43,823
Reversal of allowance for losses from guarantees and acceptances	(1,209)	(37,436)
Changes in foreign exchange rates	(21)	(4,083)
Ending balance	₩ 1,074	₩ 2,304

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

(in millions of Won)

	2003	2002	2001
Guarantees and acceptances outstanding	₩ 811,163	₩ 1,048,237	₩ 2,825,301
Allowance	1,074	2,304	43,823
Ratio (%)	0.13	0.22	1.55

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

(in millions of Won)

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Korea	₩ 750,069	92.46	₩ 1,288,778	99.84	₩ 2,038,847	97.00
USA	61,048	7.53	577	0.04	61,625	2.93
Others	46	0.01	1,491	0.12	1,537	0.07
	₩ 811,163	100.00	₩ 1,290,846	100.00	₩ 2,102,009	100.00

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Guarantees and Acceptances Outstanding		Contingent Guarantees and Acceptances		Total	
	Balance	Percentage (%)	Balance	Percentage (%)	Balance	Percentage (%)
Manufacturing	₩ 279,431	34.45	₩ 735,351	56.97	₩ 1,014,782	48.28
Service	436,954	53.87	477,938	37.03	914,892	43.52
Finance	67,732	8.35	472	0.04	68,204	3.24
Others	27,046	3.33	77,085	5.96	104,131	4.96
	₩ 811,163	100.00	₩ 1,290,846	100.00	₩ 2,102,009	100.00

15. DERIVATIVES

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

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

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

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

(in millions of Won)

	2003			2002		
	Trading	Hedge	Total	Trading	Hedge	Total
Interest related						
Future	₩ 519,665	₩ -	₩ 519,665	₩ 365,513	₩ -	₩ 365,513
Swap	26,797,056	598,900	27,395,956	15,840,496	1,110,120	16,950,616
Option	2,340,000	-	2,340,000	310,700	-	310,700
	29,656,721	598,900	30,255,621	16,516,709	1,110,120	17,626,829
Currency related						
Forward	25,899,637	-	25,899,637	13,186,383	-	13,186,383
Future	967,823	-	967,823	739,386	-	739,386
Swap	4,140,139	-	4,140,139	3,141,672	-	3,141,672
Option bought	28,148	-	28,148	48,616	-	48,616
Option sold	81,450	-	81,450	127,863	-	127,863
	31,117,197	-	31,117,197	17,243,920	-	17,243,920
Stock related						
Option bought	1,964,870	-	1,964,870	138,343	-	138,343
Option sold	1,954,093	-	1,954,093	100,000	-	100,000
	3,918,963	-	3,918,963	238,343	-	238,343
	₩ 64,692,881	₩ 598,900	₩ 65,291,781	₩ 33,998,972	₩ 1,110,120	₩ 35,109,092

Notes to Consolidated Financial Statements

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

		(in millions of Won)	
		Amount	
Gain on derivatives			
Gain on derivatives transactions	₩	1,134,624	
Gain on valuation of derivatives		403,457	
Gain on fair value hedged items		10,715	
	₩	1,548,796	
Loss on derivatives			
Loss on derivatives transactions	₩	1,062,812	
Loss on valuation of derivatives		421,793	
Loss on fair value hedged items		-	
	₩	1,484,605	

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

	Valuation Gains (P/L)			Valuation Losses (P/L)			Fair Value (B/S)	
	Trading	Hedge	Total	Trading	Hedge	Total	Asset	Liability
Interest related								
Option	₩ 2,982	₩ -	₩ 2,982	₩ 10,178	₩ -	₩ 10,178	₩ 6,487	₩ 13,942
Swap	100,026	-	100,026	84,682	10,715	95,397	142,562	230,948
	103,008	-	103,008	94,860	10,715	105,575	149,049	244,890
Currency related								
Forward	149,965	-	149,965	156,484	-	156,484	153,014	177,060
Option bought	94	-	94	-	-	-	94	-
Option sold	358	-	358	581	-	581	130	615
Swap	31,005	-	31,005	50,423	-	50,423	258,136	83,542
	181,422	-	181,422	207,488	-	207,488	411,374	261,217
Stock related								
Option bought	105,536	-	105,536	15,184	-	15,184	192,100	-
Option sold	13,491	-	13,491	93,546	-	93,546	-	181,938
	119,027	-	119,027	108,730	-	108,730	192,100	181,938
	₩ 403,457	₩ -	₩ 403,457	₩ 411,078	₩ 10,715	₩ 421,793	₩ 752,523	₩ 688,045

16. COMMITMENTS AND CONTINGENCIES

As of December 31, 2003, 265 pending legal actions with an aggregate amount of damages of ₩160,004 million are filed against the Consolidated Company and the Consolidated Company had also filed 192 lawsuits, which are still pending, with an aggregate amount of claims of ₩252,608 million. Management believes that the actions against the Consolidated Company are without merit and that the ultimate liability, if any, will not materially affect the Consolidated Company's financial position.

Notes to Consolidated Financial Statements

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

Details	Exposure to Possible Loss	Results		
		1 st Trial	2 nd Trial	3 rd Trial
Cancellation of a registered mortgage (3 cases)	₩ 30,822	in progress		
Claim for return of trust accounts	11,474	in progress		
Confirmation of obligations	7,148	closed ^{1*}	closed ^{1*}	in progress
Claim related to sale of Kookmin Mutual Savings & Finance Co., Ltd	5,000	in progress		
Claim related to deposits	4,026	in progress		
Claim for return of unfair gains	3,912	closed ^{1*}	in progress	
Claim related to loans	2,883	closed ^{2*}	in progress	

1* The Bank (partially) won the case.

2* The Bank partially lost the case.

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

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

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

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

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

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

As of December 31, 2003, the Consolidated Company has outstanding commitments to Korea Exchange Bank and Tong Yang Investment Bank for the discounting of commercial paper, limited to ₩20,000 million and ₩10,000 million, respectively. There are no balances related to these commitments as of December 31, 2003.

Tax investigations of the Bank by the National Tax Administration for the fiscal years 1998, 1999, 2000 and 2001 are in process, however as of March 3, 2004, the Bank has not been notified of the results of these investigations. Based on estimations, the Bank provided ₩142,021 million as allowance for supplementary payments for income taxes (Note 13).

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

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

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

As of December 31, 2003, the Consolidated Company has provided four blank notes to financial institutions including Korea Securities Finance Corporation as collateral for borrowings and other obligations. It has also provided one note with a face value of ₩64,390 million, to Korean Housing Guarantee Co., Ltd. as collateral for the performance guarantee related to the real estate trust operations.

In accordance with the agreement with the creditors’ committee of LG Card Co., Ltd. on November 24, 2003, the Bank provided additional loans of ₩437 billion to LG Card Co., Ltd., which is currently experiencing liquidity crisis. Also, on January 9, 2004, the Bank has agreed to a debt-equity swap of ₩312.7 billion, to provide additional loans of ₩205.9 billion (to be included in the debt-equity swap), and to extend the maturity of loans that will mature in 2004. As of December 31, 2003, the Bank’s total exposure related to LG Card Co., Ltd. includes loans, debt securities and customer financing amounting to ₩487 billion, ₩26.8 billion and ₩75.3 billion, respectively. The ultimate effect of these circumstances on the financial position of the Bank as of the balance sheet date cannot be presently determined, and accordingly, no adjustments related to such uncertainties have been recorded in the accompanying financial statements.

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

Notes to Consolidated Financial Statements

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

17. CAPITAL

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

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

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

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

18. CAPITAL SURPLUS

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

	(in millions of Won)		
	Beginning Balance	Changes	Ending Balance
Paid-in capital in excess of par value	₩ 5,287,708	₩ 368,132	₩ 5,655,840
Gain on business combination	397,669	-	397,669
Revaluation increment	177,229	-	177,229
Others	105,795	(99,005)	6,790
	₩ 5,968,401	₩ 269,127	₩ 6,237,528

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

The gain on business combination is due to the difference between the consideration given and the net asset value from the merger with KLB on December 31, 1998. The current period changes in other capital surplus are due to the merger with Kookmin Credit Card Co., Ltd. amounting to ₩96,858 million and the loss on disposal of treasury stock amounting to ₩2,147 million.

Notes to Consolidated Financial Statements

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19. RETAINED EARNINGS

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

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

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

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

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

20. CAPITAL ADJUSTMENTS

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

(in millions of Won)

	Beginning Balance	Increase	Decrease	Ending Balance
Treasury stock	₩ (148,973)	₩ (1,227,876)	₩ (48,537)	₩ (1,328,312)
Unrealized gain on available-for-sale securities	178,046	-	36,891	141,155
Unrealized gain on investment in associates	-	881	-	881
Stock options	397	26,211	397	26,211
Loss on disposal of treasury stock	-	(749)	-	(749)
Unrealized gain on valuation of derivatives	1,347	-	1,347	-
	₩ 30,817	₩ (1,201,533)	₩ (9,902)	₩ (1,160,814)

The Bank, with the approval of the Board of Directors on July 26, 2002, established an employee stock option plan for the welfare of the employees and purchased 3,000,000 shares of treasury stock under the plan. During the year ended December 31, 2003, the Bank contributed 1,000,000 shares to the Employee Stock Ownership Association.

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

21. MINORITY INTEREST

The movements in minority interest for the year ended December 31, 2003 are as follows:

(in millions of Won)

Subsidiaries	Beginning Balance	Minority Interest Gain (Losses)	Increase	Decrease	Ending Balance
Kookmin Credit Card Co., Ltd.	₩ 236,428	₩ 73,172	₩ 670	₩ 310,270	₩ -
KB Investment Co., Ltd.	83	6	-	-	89
Kookmin Data System Corp.	4	-	-	-	4
Kookmin Futures Co., Ltd.	5	-	-	-	5
Kookmin Bank Investment Trust Mgt. Co., Ltd.	11,468	2,087	-	2,300	11,255
KB Credit Information Co., Ltd.	4,367	1,237	-	187	5,417
	₩ 252,355	₩ 76,502	₩ 670	₩ 312,757	₩ 16,770

22. EMPLOYEE STOCK OPTIONS

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

Series	Grant Date	Shares Granted	Shares Expired to Date	Shares Exercised	Shares Outstanding	Exercise Price	Exercise Period
Series 1	00.03.18	233,940	121,411	10,183	102,346	₩ 23,469	03.03.19 - 05.03.18
Series 2	01.03.15	214,975	16,882	-	198,093	28,027	04.03.16 - 09.03.15
Series 3	98.10.31	400,000	-	390,000	10,000	5,000	01.11.01 - 04.10.31
Series 4	99.02.27	280,000	59,892	220,108	-	13,900	02.02.28 - 05.02.27
Series 5	00.02.28	267,000	65,218	11,100	190,682	27,600	03.03.01 - 06.02.28
Series 6	01.03.24	111,000	38,624	-	72,376	25,100	04.03.25 - 07.03.24
Series 7 ^{12*}	01.11.16	850,000	-	-	850,000	51,200	04.11.17 - 09.11.16
Series 8-1 ^{2*}	02.03.22	132,000	89,753	-	42,247	57,100	05.03.23 - 10.03.22
Series 8-1 ^{3*}	02.03.22	490,000	119,326	-	370,674	57,100	05.03.23 - 10.03.22
Series 9 ^{3*}	02.07.26	30,000	-	-	30,000	58,800	05.07.27 - 10.07.26
Series 10-1 ^{2*}	03.03.21	140,000	-	-	140,000	41,200	06.03.22 - 11.03.21
Series 10-1 ^{3*}	03.03.21	180,000	-	-	180,000	35,500	06.03.22 - 11.03.21
Series 11 ^{3*}	03.08.27	30,000	-	-	30,000	40,500	06.08.28 - 11.08.27
Increase due to merger-1 ^{4*}	01.03.22	22,146	-	-	22,146	71,538	04.03.23 - 11.03.22
Increase due to merger-2 ^{24*}	02.03.29	9,990	-	-	9,990	129,100	04.03.30 - 11.03.29

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

2* The exercise price may be affected by the fluctuations in the stock price index of the banking industry.

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

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

Notes to Consolidated Financial Statements

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

Series	Stock price as of Grant Date (Won)	Risk free Interest Rate ^{1*} (%)	Expected Exercise Period ^{2*} (Years)	Volatility of Underlying Stock Price ^{3*} (%)	Expected Dividend Rate ^{4*} (%)	Compensation Cost (Won)
Series 1	₩ 21,441	9.32	4.00	71.14	2.25	₩ 12,638
Series 2	25,156	6.06	5.50	70.30	2.47	15,987
Series 3	5,430	9.74	3.00	59.06	1.14	1,395
Series 4 ^{5*}	33,750	4.74	0.33	73.30	1.93	19,850
Series 5 ^{5*}	33,750	4.74	1.33	73.30	1.93	13,320
Series 6 ^{5*}	33,750	4.74	2.42	73.30	1.93	17,117
Series 7	45,800	4.91	3.00	58.90	-	18,364
Series 8-1	58,000	6.14	3.00	53.56	-	24,496
Series 8-2	58,000	6.14	3.00	53.56	-	24,496
Series 9	53,900	5.73	3.00	43.09	-	17,333
Series 10-1	36,500	4.74	3.00	48.77	-	12,204
Series 10-2	36,500	4.74	3.00	48.77	-	14,073
Series 11	41,100	5.75	3.00	44.48	-	15,098
Increase due to merger-1	27,200	5.17	3.00	46.02	-	8,447
Increase due to merger-2	55,900	6.39	2.00	49.24	20.00	6,536

1* Interest rate of government bond as of grant date.

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

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

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

5* Compensation costs were recalculated to reflect the effects of the merger with H&CB.

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

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

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

23. OTHER NON-INTEREST INCOME (EXPENSES)

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

	(in millions of Won)
	Amount
Other non-interest income	
Realized gain on trading securities	₩ 138,079
Unrealized gain on trading securities	65,798
Gain on trust management	206,075
Reversal of allowance for losses from guarantees and acceptances	1,209
Gain on valuation of derivatives	403,457
Gain on fair value hedge	10,715
Others	18,240
	₩ 843,573
Other non-interest expenses	
Realized loss on trading securities	₩ 77,296
Contributions to special funds	178,170
Loss on trust management	1,458
Loss on valuation of derivatives	421,793
Others	673,009
	₩ 1,351,726

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

24. GENERAL AND ADMINISTRATIVE EXPENSES

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

	(in millions of Won)	
	Amount	
Salaries and wages	₩	1,255,628
Retirement benefits (Note 12)		129,392
Other employee benefits		347,746
Rent		78,433
Depreciation		436,549
Amortization		82,807
Taxes and dues		136,691
Advertising		87,653
Ordinary R&D		113,217
Fees and commissions		109,269
Others		249,779
	₩	3,027,164

25. NON-OPERATING INCOME (EXPENSES)

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

	(in millions of Won)	
	Amount	
Non-operating income		
Gain on disposal of fixed assets	₩	2,308
Rent income		2,557
Unrealized gain on investment in associates		22,675
Realized gain on available-for-sale securities		568,223
Realized gain on held-to-maturity securities		2,771
Reversal of impairment loss on available-for-sale securities		90,662
Gain on sale of loans		62,715
Others		156,983
		908,894
Non-operating expenses		
Loss on disposal of fixed assets		36,724
Impairment loss on fixed assets		22,228
Loss on investment in associates		-
Realized loss on available-for-sale securities		68,408
Impairment loss on available-for-sale securities		217,515
Impairment loss on held-to-maturity securities		5,840
Early retirement benefits		-
Loss on sale of loans		208,800
Provision for loan losses due to merger		1,652,264
Others		254,692
		2,466,471
	₩	(1,557,577)

Notes to Consolidated Financial Statements

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26. INCOME TAX EXPENSE

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

	(in millions of Won)	
	2003	2002
Income tax payable	₩ 15,283	₩ 630,187
Deferred income taxes from temporary differences	(228,612)	(44,833)
Deferred income taxes from net operating loss carry-forward ^{1*}	(168,645)	28,929
Deferred tax credit ^{1*}	(3,951)	-
Change in temporary differences due to tax adjustments	3,656	-
Retained earnings and other capital surplus adjustments ^{2*}	2,061	(1,899)
Unrealized holding gain (loss)	25,850	-
Income tax (benefit) expense	₩ (354,358)	₩ 612,384

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

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

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

	(in millions of Won)	
	2003	2002
Net (loss) income before income taxes	₩ (1,019,606)	₩ 1,818,432
Income tax expense based on the effective tax rate	(303,493)	540,074
Tax effects on adjustments		
Adjustments to increase taxable income	100,080	43,443
Adjustments to decrease taxable income	(182,600)	(33,165)
Discount effect	16,607	-
Adjustments to subsidiaries which recognized net loss	15,048	62,032
Income tax benefit per statements of operations	₩ (354,358)	₩ 612,384

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

	(in millions of Won)				
	Beginning Balance	Increase	Decrease	Ending Balance	Deferred Tax Asset (Liability)
Allowance for loan losses	₩ 333,535	₩ 242,889	₩ 255,521	₩ 320,903	₩ 93,358
Accrued interest	(421,749)	(405,499)	(483,160)	(344,088)	(95,311)
Unrealized loss on securities	689,322	(159,866)	(318,388)	847,844	226,460
Unrealized loss on derivatives	(100,208)	(49,290)	(112,951)	(36,547)	(10,050)
Present value discounts	28,001	14,691	27,918	14,774	4,270
Allowance for losses on guarantees and acceptances	2,304	1,074	2,304	1,074	295
Accrued severance benefits	1,189	(14,046)	(13,568)	711	181
Stock options	10,116	26,763	10,668	26,211	7,208
Accumulated depreciation	839	16,497	8,932	8,404	2,313
Other allowances	50,973	505,372	50,973	505,372	144,029
Others	51,661	89,296	15,135	125,822	18,523
Net operating loss carry-forward	-	567,825	-	567,825	168,645
	₩ 645,983	₩ 835,706	₩ (556,616)	₩ 2,038,305	₩ 559,921
Deferred tax credit					3,951
					₩ 563,872

27. EARNINGS (LOSS) PER SHARE

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

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

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

	2003	2002
Net income (loss) (in millions of Won)	₩ (741,750)	₩ 1,271,308
Weighted average number of common shares outstanding	325,999,911	317,786,872
Basic earnings (loss) per share and basic ordinary income (loss) per share (in Won)	(2,275)	4,001

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

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

	Exercise Period	Shares Outstanding	Exercise Price
Stock options	2001.11.01 - 2011.08.27	2,248,554	₩5,000 - ₩129,100

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December 31, 2003 and 2002

28. ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

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

	Total Balances		Major Denomination Currencies		
	Millions of Won	Thousands of US Dollars ^{1*}	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	₩ 228,153	\$ 190,477	\$ 76,612	€ 22,070	¥ 7,223,564
Due from banks	606,305	506,182	461,249	3,015	1,798,015
Securities	1,265,120	1,056,203	941,396	3,960	4,027,539
Loans in foreign currencies	3,900,869	3,256,695	2,455,148	37,850	79,081,632
Bills bought	534,239	446,016	416,651	15,003	817,496
Advances to customers	4,593	3,835	3,835	-	-
Call loans	19,448	16,237	5,800	-	50,000
Liabilities					
Deposits	1,552,672	1,296,270	880,821	14,493	27,863,430
Borrowings	3,068,008	2,561,369	1,942,770	37,210	60,834,504
Due to BOK	12,608	10,526	10,526	-	-
Call money	169,744	141,713	137,600	-	300,000
Debentures	896,621	748,557	741,129	-	-
Unsettled foreign exchange liabilities	22,600	18,868	11,569	161	89,793

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

	Total Balances		Major Denomination Currencies		
	Millions of Won	Thousands of US Dollars ^{1*}	Thousands of US Dollars	Thousands of EC Euro	Thousands of Japanese Yen
Assets					
Cash	₩ 186,780	\$ 155,598	\$ 63,914	€ 15,676	¥ 7,450,032
Due from bank	542,899	452,265	404,009	6,769	6,062,988
Securities	1,281,681	1,067,712	917,775	7,045	4,789,879
Loans in foreign currencies	4,259,199	3,548,150	2,308,773	87,613	65,532,564
Bills bought	756,300	630,040	588,877	25,336	840,286
Advances to customers	2,223	1,852	1,852	-	-
Call loans	195,741	163,063	154,700	4,000	50,000
Liabilities					
Deposits	1,212,004	1,009,666	900,160	12,346	17,863,339
Borrowings	3,140,751	2,616,420	2,134,304	94,893	46,007,284
Due to BOK	37,493	31,234	31,234	-	-
Call money	76,666	63,867	41,500	-	5,679,100
Debentures	891,161	742,387	495,962	-	-
Unsettled foreign exchange liabilities	20,895	17,406	12,772	939	138,208

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

29. RELATED PARTY TRANSACTIONS

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

(in millions of Won)

Account	2003		2002	
	Balances	Transactions	Balances	Transactions
KB Investment Co., Ltd.	Loans	-	-	4,115
	Deposits	9,624	(484)	16,142
	Other liabilities	191	-	-
Kookmin Data System Corp.	Other assets	34	-	-
	Deposits	5,582	(265)	6,903
	Other liabilities	2,832	(15,925)	879
	Commissions income	-	53	-
Kookmin Futures Co., Ltd.	Due from banks	40	3	379
	Other assets	26	77	-
	Deposits	9,793	(497)	18,860
	Other liabilities	1,663	-	620
	Commissions income	-	9	-
	Commissions expenses	-	(187)	-
K.B. Luxembourg SA	Due from banks	51,784	2,215	48,337
	Loans	76,659	739	139,702
	Other assets	176	2,900	815
	Borrowings	140,880	(193)	177,873
	Other liabilities	-	(1,352)	11,077
KB International Ltd.(London)	Due from banks	33,754	904	24,490
	Loans	95,824	1,765	186,062
	Other assets	405	477	-
	Borrowings	108,272	(501)	198,663
	Other liabilities	1,203	(4,011)	13,245
	Commissions expenses	-	(1,398)	-
Kookmin Finance H.K. Ltd.	Due from banks	372	857	6,318
	Loans	98,579	1,802	175,850
	Other assets	152	109	-
	Borrowings	173,121	(4)	159,715
	Other liabilities	-	-	5,424
	Commissions expenses	-	(1,777)	-
Kookmin Investment Trust Mgt.	Deposits	46,244	(1,250)	1,348
	Other liabilities	234	(5)	-
KB Real Estate Co., Ltd.	Loans	25,000	2,578	30,000
	Deposits	1,838	(27)	104,754
	Other liabilities	1,755	-	1,782
Joeun Industrial Co., Ltd.	Loans	139,425	-	-
KB Credit Information Co., Ltd.	Deposits	11,446	(457)	9,496
	Other liabilities	8,482	-	5,388
	Commissions expenses	-	(38,481)	-
	Rent	-	-	-

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

30. TRANSACTIONS WITH FINANCIAL INSTITUTIONS

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

(in millions of Won)

Description		Bank of Korea	Other Banks	Other Financial Institutions	Total
Cash and due from banks	In Won	₩ 2,612,248	₩ 23,171	₩ 140,094	₩ 2,775,513
	In foreign currencies	12,415	590,535	3,355	606,305
		2,624,663	613,706	143,449	3,381,818
Loans	In Won	-	12,815	607,524	620,339
	In foreign currencies	-	767,884	49,866	817,750
	Others	1,500,000	1,560,702	794,715	3,855,417
	1,500,000	2,341,401	1,452,105	5,293,506	
Deposits	In Won	-	975,372	4,342,075	5,317,447
	In foreign currencies	-	-	2,400,000	2,400,000
		-	975,372	6,742,075	7,717,447
Borrowings	In Won	992,433	263,822	5,688	1,261,943
	In foreign currencies	-	2,541,145	19,486	2,560,631
	Others	12,608	465,755	55,800	534,163
	1,005,041	3,270,722	80,974	4,356,737	
Debentures	In Won	-	-	270,900	270,900
	In foreign currencies	-	888,455	-	888,455
		-	888,455	270,900	1,159,355

31. INTEREST BEARING ASSETS AND LIABILITIES

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

(in millions of Won)

	Average Balance	Interest Income	Average Yield (%)
Assets			
Due from banks	₩ 701,461	₩ 10,997	1.57
Securities	34,510,523	2,507,151	7.26
Loans	140,696,811	10,443,799	7.42
	₩ 175,908,795	₩ 12,961,947	
Liabilities			
Deposits	₩ 129,648,123	₩ 4,386,806	3.38
Borrowings	14,821,375	591,830	3.99
Debentures	22,790,647	1,436,234	6.30
	₩ 167,260,145	₩ 6,414,870	

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

32. BUSINESS COMBINATION WITH H&CB

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

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

33. MERGER WITH KOOKMIN CREDIT CARD CO., LTD.

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

The merger was effected through the issuance of common shares of 8,120,431 by the Bank to the shareholders of the Subsidiary as of July 24, 2003, at a ratio of 0.442983 share of the Bank’s common stock for each share of the Subsidiary. The newly issued common shares relating to this transaction constituted 2.4% of the total outstanding shares of the Bank as of September 30, 2003.

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

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

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

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

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

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

(in millions of Won)

	Kookmin Bank	Kookmin Credit Card	Total¹⁾
Cash and due from banks	₩ 4,599,356	₩ 103,505	₩ 4,702,861
Securities ²⁾	30,940,750	3,112,127	34,052,877
Loans	126,730,561	9,256,060	135,986,621
Fixed assets	3,092,616	260,600	3,353,216
Other assets	6,135,558	648,956	6,784,514
Total assets	₩ 171,498,841	₩ 13,381,248	₩ 184,880,089
Deposits	₩ 123,109,653	₩ -	₩ 123,109,653
Borrowings	10,690,754	5,629,389	16,320,143
Debentures	17,539,007	5,934,298	23,473,305
Other liabilities	10,110,031	899,334	11,009,365
Total liabilities	161,449,445	12,463,021	173,912,466
Capital stock	1,641,293	366,000	2,007,293
Capital surplus	5,864,752	146,591	6,011,343
Retained earnings	2,417,102	407,596	2,824,698
Capital adjustments	126,249	(1,960)	124,289
Total shareholders' equity	10,049,396	918,227	10,967,623
Total liabilities and shareholders' equity	₩ 171,498,841	₩ 13,381,248	₩ 184,880,089
	Kookmin Bank	Kookmin Credit Card	Total¹⁾
Operating income (loss)	₩ 2,265,765	₩ (306,146)	₩ 1,959,619
Non-operating income	525,280	67,017	592,297
Non-operating expenses ²⁾	(897,427)	(21,759)	(919,186)
Net income (loss) before income tax expense	1,893,618	(260,888)	1,632,730
Income tax expense	(583,327)	-	(583,327)
Net income (loss)	₩ 1,310,291	₩ (260,888)	₩ 1,049,403

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

(in millions of Won)

	Kookmin Bank	Kookmin Credit Card³⁾	Total¹⁾
Cash and due from banks	₩ 7,543,522	₩ 39,139	₩ 7,582,661
Securities	29,062,866	2,969,080	32,031,946
Loans	133,299,297	6,854,723	140,154,020
Fixed assets	2,836,450	325,220	3,161,670
Other assets	8,895,431	407,247	9,302,678
Total assets	₩ 181,637,566	₩ 10,595,409	₩ 192,232,975
Deposits	₩ 128,106,542	₩ -	₩ 128,106,542
Borrowings	11,691,597	3,240,752	14,932,349
Debentures	17,181,146	4,951,891	22,133,037
Other liabilities	14,858,438	1,199,254	16,057,692
Total liabilities	₩ 171,837,723	₩ 9,391,897	₩ 181,229,620

Continued;

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

	(in millions of Won)		
	Kookmin Bank	Kookmin Credit Card	Total ^{1*}
Capital stock	₩ 1,641,293	₩ 366,000	₩ 2,007,293
Capital surplus	5,864,679	146,591	6,011,270
Retained earnings	2,033,157	691,969	2,725,126
Capital adjustments	260,714	(1,048)	259,666
Total shareholders' equity	9,799,843	1,203,512	11,003,355
Total liabilities and shareholders' equity	₩ 181,637,566	₩ 10,595,409	₩ 192,232,975
	Kookmin Bank	Kookmin Credit Card ^{3*}	Total
Operating income (loss)	₩ 478,392	₩ 301,213	₩ 779,605
Non-operating income	670,656	27,656	698,312
Net income (loss) before income tax expense	(736,736)	310,223	(426,513)
Income tax expense	354,627	(25,850)	328,777
Net income (loss)	₩ (382,109)	₩ 284,373	₩ (97,736)

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

2* The equity method investments of Kookmin Credit Card Co., Ltd. were recognized by the Bank as securities and non-operating expenses.

3* Balance sheet of Kookmin Credit Card Co., Ltd. and its statements of operations is unaudited.

34. STATEMENT OF CASH FLOWS

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

	(in millions of Won)	
	2003	2002
Cash on hand	₩ 2,945,921	₩ 2,393,118
Cash in foreign currencies	228,153	186,780
Due from banks in Won	2,793,082	1,688,995
Due from banks in foreign currencies	606,305	542,899
	6,573,461	4,811,792
Restricted deposits	(2,782,686)	(1,604,544)
	₩ 3,790,775	₩ 3,207,248

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

	(in millions of Won)	
	2003	2002
Unrealized gains on investment securities	(36,891)	87,330
Capital increase due to debt-equity swap	-	234,100
Capital increase due to stock dividend	-	89,900
Write-off of loans	6,643,899	2,560,378
Decrease in loan from restructuring	(7,482)	238
Decrease in loan loss provision due to sales of non-performing loans	233,032	106,990
Conversion of loans into equity securities	33,415	109,931

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

35. BUSINESS SEGMENTS

The following tables show the distribution of the Consolidated Company's operations by business segment as of and for the year ended December 31, 2003:

(in millions of Won)

	Financing and Insurance	Non-Financing & Insurance	Adjustments for Consolidation	Total
Cash and due from banks	₩ 6,692,686	₩ 10,629	₩ (142,664)	₩ 6,560,651
Securities	30,943,662	3	(412,598)	30,531,067
Loans	140,392,655	645	(467,092)	139,926,208
Fixed assets	3,024,545	403	-	3,024,948
Other assets	7,318,500	6,215	(594,551)	6,730,164
Total assets	₩ 188,372,048	₩ 17,895	₩ (1,616,905)	₩ 186,773,038
Deposits	135,555,569	-	(182,283)	135,373,286
Borrowings	11,191,669	-	(440,849)	10,750,820
Debentures	19,202,583	-	(20,007)	19,182,576
Other liabilities	13,560,521	3,245	(585,454)	12,978,312
Total liabilities	₩ 179,510,342	₩ 3,245	₩ (1,228,593)	₩ 178,284,994
Capital stock	1,937,796	8,000	(263,900)	1,681,896
Consolidated capital surplus	6,249,795	-	(12,267)	6,237,528
Consolidated retained earnings	1,831,909	6,650	(125,895)	1,712,664
Consolidated capital adjustments	(1,157,794)	-	(3,020)	(1,160,814)
Minority interest	-	-	16,770	16,770
Total shareholder's equity	8,861,706	14,650	(388,312)	8,488,044
Total liabilities and shareholders' equity	₩ 188,372,048	₩ 17,895	₩ (1,616,905)	₩ 186,773,038
Operating revenue				
Interest revenue	13,106,017	646	(21,761)	13,084,902
Fees & commissions	2,588,044	37,390	(58,881)	2,566,553
Other revenue	2,471,415	-	(116,569)	2,354,846
Operating revenue	₩ 18,165,476	₩ 38,036	₩ (197,211)	₩ 18,006,301
Operating expenses				
Interest expenses	6,497,502	-	(21,741)	6,475,761
Fees & commissions	737,484	22,923	(42,803)	717,604
Other expenses	7,379,099	12	(131,310)	7,247,801
General and administrative expenses	3,029,830	12,900	(15,566)	3,027,164
Operating expenses	17,643,915	35,835	(211,420)	17,468,330
Operating income	521,561	2,201	14,209	537,971
Non-operating income	942,474	2	(33,582)	908,894
Non-operating expenses	2,465,609	865	(3)	2,466,471
Income (loss) before income tax	(1,001,574)	1,338	(19,370)	(1,019,606)
Income tax expenses	(354,664)	307	(1)	(354,358)
Net income (loss) before consolidation adjustment	(646,910)	1,031	(19,369)	(665,248)
Minority interest income	73,172	-	3,330	76,502
Consolidated net income (loss)	₩ (720,082)	₩ 1,031	₩ (22,699)	₩ (741,750)

Notes to Consolidated Financial Statements

December 31, 2003 and 2002

The following table shows the distribution of the Consolidated Company's operations by industry:

(in millions of Won)

	Bank	Trust	Others	Consolidation Adjustments	Total
Operating revenue	₩ 17,754,261	₩ 229,480	₩ 219,771	₩ (197,211)	₩ 18,006,301
Intercompany transactions	(100,919)	(9,969)	(86,323)	197,211	-
Net operating revenue	17,653,342	219,511	133,448	-	18,006,301
Operating income (loss)	₩ 474,967	₩ (1,669)	₩ 50,464	₩ 14,209	₩ 537,971
Cash and due from banks	₩ 6,526,345	₩ -	₩ 176,970	₩ (142,664)	₩ 6,560,651
Securities	28,101,846	2,731,173	110,646	(412,598)	30,531,067
Loans	139,920,520	130,349	342,431	(467,092)	139,926,208
Fixed assets	3,019,555	-	5,393	-	3,024,948
Other assets	6,484,239	543,695	296,781	(594,551)	6,730,164
Total assets	₩ 184,052,505	₩ 3,405,217	₩ 932,221	₩ (1,616,905)	₩ 186,773,038

The following table shows the distribution of the Consolidated Company's operations by geographical regions

(in millions of Won)

	Domestic	Overseas	Consolidation Adjustments	Total
Operating revenue	₩ 18,106,767	₩ 96,745	₩ (197,211)	₩ 18,006,301
Intercompany transactions	(189,185)	(8,026)	197,211	-
Net operating revenue	17,917,582	88,719	-	18,006,301
Operating income (loss)	₩ 446,550	₩ 77,212	₩ 14,209	₩ 537,971
Cash and due from banks	₩ 6,640,625	₩ 62,690	₩ (142,664)	₩ 6,560,651
Securities	30,912,157	31,508	(412,598)	30,531,067
Loans	140,058,595	334,705	(467,092)	139,926,208
Fixed assets	3,024,431	517	-	3,024,948
Other assets	7,316,507	8,208	(594,551)	6,730,164
Total assets	₩ 187,952,315	₩ 437,628	₩ (1,616,905)	₩ 186,773,038

36. FINAL INTERIM PERIOD PERFORMANCE

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

(in millions of Won)

	2003	2002
Operating income	₩ 3,221,619	₩ 4,649,867
Operating expense	3,597,250	5,015,657
Operating loss	(375,631)	(365,790)
Net loss	(375,753)	(191,945)
Loss per share (in Won)	(1,144)	(602)

37. RECLASSIFICATION OF PRIOR YEAR FINANCIAL STATEMENT PRESENTATION

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

38. SUBSEQUENT EVENT

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

Company Information

Shareholder Information

KB Shares Issued : 336,379,116

Dividend Information

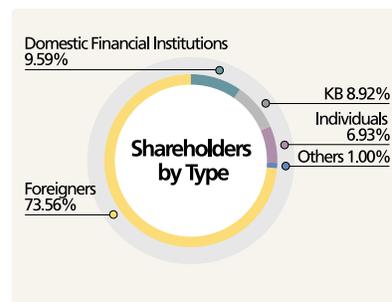
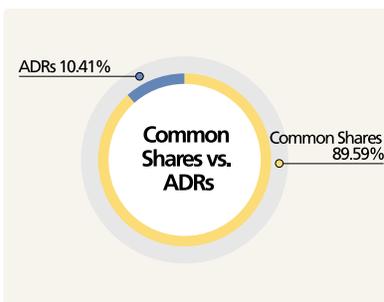
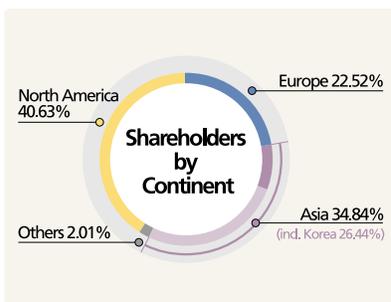
KB paid out relatively large dividends during the past two years in order to maximize shareholder value as laid out by our management philosophy. However, for the fiscal year 2003, we paid out no dividends as we recorded a net loss for the year.

(KRW in millions)

Year	Dividend Type / Face Value	Dividend per Share (KRW)	Dividend Payout Ratio	Dividend Yield	Net Income
2001	Cash 2% / Stock 6%	100	16.19%	0.80%	740,565
2002	Cash 20%	1,000	24.82%	2.38%	1,310,291

Major Shareholders (As of December 31, 2003)

	Name	Shares Owned	
		No. of Shares	%
1	Bank of New York (ADRs)	35,000,566	10.41
2	KB (Treasury Stock)	30,016,623	8.92
3	ING Bank N.V. Amsterdam	12,716,691	3.78
4	Goldman Sachs Capital	3,831,151	1.14



Securities Listings

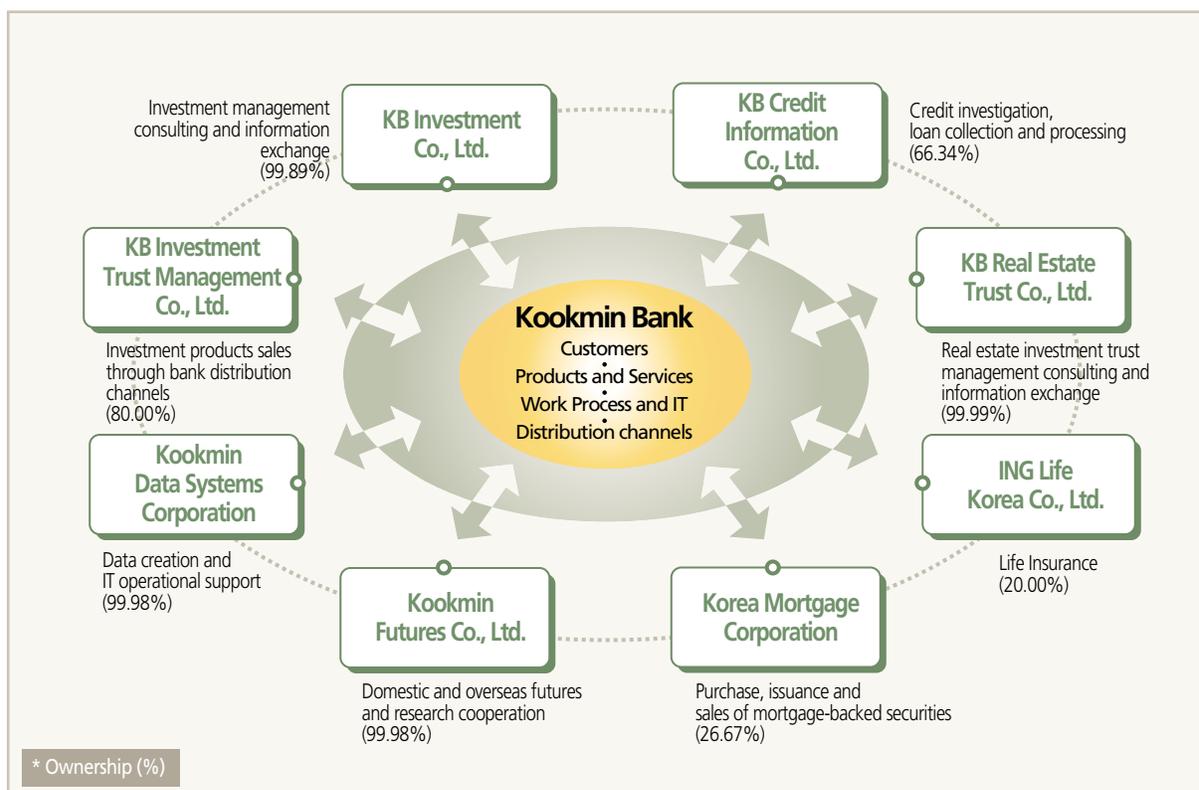
- Korea Stocks Exchange : 060000, KS (Common Stock)
- New York Stock Exchange : KB (ADRs)

Transfer Agent and Registrar

Common Stock	American Depository Receipts (ADRs)
Kookmin Bank Securities Agency Business Team 36-3, Yoido-dong, Youngdeungpo-gu, Seoul 150-758, Korea Tel: (822) 2073-8122 Fax: (822) 2073-8111	Bank of New York ADR Division 101 Barclay Street 22nd Floor New York, NY 10286 U.S.A. Tel: (1-212) 815-8161 Fax: (1-212) 571-3050

Company Information

Affiliated Companies



KB subsidiaries provide another source of growth for our business model. Prior to the business combination between Kookmin Bank and H&CB, there were 13 subsidiaries between the two banks. KB merged with Kookmin Credit Card Co., Ltd. on September 30, 2003. Currently, we have eight subsidiaries operating in Korea.

With respect to the management of our subsidiaries, our basic principles are to support our subsidiaries in establishing profitability-focused management, and sustaining the presence of mutual benefits among KB and our subsidiaries.

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

Company Information

Company Directory

Corporate Headquarters

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Kookmin Bank Tokyo Branch
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Fax: (813) 3201-3410
Swift Code: CZNBJPJT
Telex: 2224334J24495

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Fax: (64-9) 366-6608
Swift Code: CZNBNZ2A
Telex: NZ60214

United Kingdom

Kookmin Bank International Ltd.
Hyung Jae Park, Managing Director
6th Floor, Princes Court, 7 Princes Street
London EC2R 8AQ, U.K.
Tel: (44-207) 710-8300
Fax: (44-207) 726-2808
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Telex: 8811971KBILDG

United States

Kookmin Bank New York Branch
Dong Cheol Lee, General Manager
565 Fifth Avenue, 24th Floor
New York, NY, 10017 U.S.A.
Tel: (1-212) 697-6100
Fax: (1-212) 697-1456
Swift Code: CZNBUS33
Telex: 49666583
ABA: 0260 1334 3

Major Subsidiaries

KB Real Estate Trust Co., Ltd.,
Tel: (822) 2190-9800
Fax: (822) 2190-9803
<http://www.kbret.co.kr>

KB Investment Co., Ltd.
Tel: (822) 545-5091
Fax: (822) 545-5092

KB Investment Trust Management Co., Ltd.
Tel: (822) 2167-8200
Fax: (822) 761-4114
<http://www.kbitm.co.kr>

Kookmin Futures Co., Ltd.
Tel: (822) 3786-0800
Fax: (822) 3786-0890
<http://www.kbfutures.co.kr>

Kookmin Data Systems Corporation
Tel: (822) 3700-5200
Fax: (822) 3700-5300
<http://www.kds.co.kr>

KB Credit information Co., Ltd.
Tel: (822) 768-2900
Fax: (822) 768-2907
<http://www.kbci.co.kr>

Forward-Looking Statements

Information contained in this document, other than historical information, may be considered forward-looking, as defined in the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking information reflects the management's views on future events and financial performance, taking into account a number of risks and uncertainties.

The factors that could cause actual results to differ include, but are not limited to, the following:

- general economic and political conditions in Korea;
- the monetary and interest rate policies of Korea;
- inflation and deflation;
- the performance of the financial markets in Korea and globally;
- changes in competition and the pricing environments in Korea;
- our ability to successfully implement our strategies;
- our growth and expansion;
- future levels of non-performing loans;
- the adequacy or allowance for credit and investment losses; and,
- adverse market and regulatory conditions.

Due to the aforementioned and other factors, no assurance can be given as to any such future results, levels of activity or achievements, and neither the Bank nor any other person shall assume responsibility for the accuracy and completeness of these forward-looking statements. The Company undertakes no obligation to update such statements as presented in this document.

