

KOOKMIN BANK  
Form 6-K  
March 04, 2004

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## Form 6-K

REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934

For the month of March 2004

## Kookmin Bank

(Translation of registrant's name into English)

9-1, 2-Ga, Namdaemun-Ro, Jung-Gu, Seoul, Korea 100-703

(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

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*Note:* Regulation S-T Rule 101(b)(1) only permits the submission in paper of a Form 6-K if submitted solely to provide an attached annual report to security holders.

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): "

*Note:* Regulation S-T Rule 101(b)(7) only permits the submission in paper of a Form 6-K if submission to furnish a report or other document that the registration foreign private issuer must furnish and make public under the laws of the jurisdiction in which the registrant is incorporated, domiciled or legally organized (the registrant's home country), or under the rules of the home country exchange on which the registrant's securities are traded, as long as the report or other document is not a press release, is not required to be and has not been distributed to the registrant's security holders, and if discussing a material event, has already been the subject of a Form 6-K submission or other Commission filing on EDGAR.

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes " No x

**Kookmin Bank s 2003 Audit Report**

On March 3, 2004, Kookmin Bank released audit report for the fiscal year of 2003, which includes comparative non-consolidated financial statements for the years ended December 31, 2003 and 2002 and related notes to the statements.

Exhibit 99.1\_ Kookmin Bank s 2003 Audit Report

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Kookmin Bank  
(Registrant)

Date: March 3, 2004

By: /s/ Ki-Sup Shin

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(Signature)

Name: Ki-Sup Shin  
Title: Executive Vice President & Chief Financial Officer

**Kookmin Bank**

**Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**Kookmin Bank**

**Contents**

**December 31, 2003 and 2002**

	<u>Page(s)</u>
<b>Report of Independent Auditors</b>	1 3
<b>Non-Consolidated Financial Statements</b>	
Balance Sheets	4
Statements of Operations	5
Statements of Appropriations of Retained Earnings (Dispositions of Accumulated Deficit)	6
Statements of Cash Flows	7 8
Notes to Financial Statements	9 57

**Samil PricewaterhouseCoopers**  
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Seoul 140-702, KOREA  
(Yongsan P.O. Box 266, 140-600)

**Report of Independent Auditors**

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 (Won)10,595,409 million and (Won)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:

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

As a result of the above change, the Bank's allowances for loan losses as of December 31, 2003 are greater by (Won)336,265 million for consumer loans and (Won)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 (Won)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 (Won)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 (Won)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 (Won)312.7 billion, to provide additional loans of (Won)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.

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.

**Kookmin Bank****Non-Consolidated Balance Sheets****December 31, 2003 and December 31, 2002***(in millions of Won)*

	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Cash and due from banks (Note 3)	(Won) 6,526,345	(Won) 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
<b>Total assets</b>	<b>(Won) 184,052,506</b>	<b>(Won) 171,498,841</b>
<b>Liabilities and Shareholders Equity</b>		
Deposits (Note 9)	(Won) 132,180,272	(Won) 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
<b>Total liabilities</b>	<b>175,637,992</b>	<b>161,124,212</b>
<b>Commitments and contingencies (Notes 14 and 16)</b>		
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
<b>Total shareholders equity</b>	<b>8,414,514</b>	<b>10,374,629</b>
<b>Total liabilities and shareholders equity</b>	<b>(Won) 184,052,506</b>	<b>(Won) 171,498,841</b>

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

**Kookmin Bank****Non-Consolidated Statements of Operations**

Years ended December 31, 2003 and 2002

*(in millions of Won except per share amounts)*

	2003	2002
<b>Interest income</b>		
Interest on due from banks	(Won) 10,433	(Won) 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
	<u>11,625,550</u>	<u>10,989,058</u>
<b>Interest expenses</b>		
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
	<u>5,902,834</u>	<u>6,075,192</u>
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	<u>1,682,180</u>	<u>3,320,387</u>
<b>Non-interest income</b>		
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
	<u>3,931,436</u>	<u>4,595,443</u>
<b>Non-interest expenses</b>		
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
	<u>5,537,532</u>	<u>5,650,065</u>
Operating income	76,084	2,265,765
Non-operating expenses, net (Note 24)	(1,222,528)	(372,147)

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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	(Won) (753,348)	(Won) 1,310,291
Basic (loss) earnings per share (In Korean Won) (Note 26)	(Won) (2,311)	(Won) 4,123

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

**Kookmin Bank****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)*

	<u>2003</u>	<u>2002</u>
<b>Retained earnings (accumulated deficit) before appropriations (dispositions)</b>		
Unappropriated retained earnings carried over from prior year	(Won) 410	(Won) 5,117
Adjustment on investment in associates (Note 19)	(1,917)	4,562
Net income (loss)	(753,348)	1,310,291
	<u>(754,855)</u>	<u>1,319,970</u>
<b>Transferred from prior years reserve (Note 19)</b>		
Reserves for overseas investment losses		5,417
		<u>5,417</u>
<b>Dispositions (appropriations) (Note 19)</b>		
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)
	<u>754,900</u>	<u>(1,324,977)</u>
<b>Unappropriated retained earnings carried over to the subsequent year</b>	<u>(Won) 45</u>	<u>(Won) 410</u>

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

**Kookmin Bank****Non-Consolidated Statements of Cash Flows**

Years ended December 31, 2003 and 2002

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Cash flows from operating activities</b>		
Net (loss) income	(Won) (753,348)	(Won) 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
<b>Net cash provided by operating activities</b>	<u>4,050,135</u>	<u>3,191,196</u>

**Kookmin Bank****Non-Consolidated Statements of Cash Flows**

Years ended December 31, 2003 and 2002

*(in millions of Won)*

	<u>2003</u>	<u>2002</u>
<b>Cash flows from investing activities</b>		
Increase (decrease) in due from banks	(Won) (1,247,467)	(Won) 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
	<u>(8,058,172)</u>	<u>(15,205,028)</u>
<b>Cash flows from financing activities</b>		
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)
	<u>4,645,870</u>	<u>11,941,097</u>
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	
<b>Cash and cash equivalents, Beginning of year</b>	<u>3,100,581</u>	<u>3,173,316</u>
End of year (Note 34)	<u>(Won) 3,771,757</u>	<u>(Won) 3,100,581</u>

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



**Kookmin Bank**

**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 (Won)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

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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.

### **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.

**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 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 (Won)10,677,822 million and (Won)620,929 million, respectively, with related foregone interest of (Won)638,079 million and (Won)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.

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.

**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002****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:

<u>Credit Risk Classification</u>	<u>Credit Ratings</u>	<u>Allowance Rates</u>
Normal	AAA~B	0.5%
Precautionary	B-~CCC	2%
Sub-standard	CC	20%
Doubtful	C	50%
Estimated loss	D	100%

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:

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

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

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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 sub-standard, 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.

**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

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:

<u>Tangible assets</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
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

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

<u>Intangible assets</u>	<u>Amortization Method</u>	<u>Estimated Useful Life</u>
Goodwill	Straight-line method	9 years
Development costs	Straight-line method	5 years
Trademarks	Straight-line method	1-10 years

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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 (Won)22,228 million for the difference between the book value of (Won)48,388 million and net realizable value of (Won)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.



**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**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.

**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.

**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

**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: (Won)1,197.8:US\$1, 2002: (Won)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.

**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

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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 (Won)325,233 million.

## Kookmin Bank

## Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

## 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)*

		<u>2003</u>	<u>2002</u>
<b>Cash on hand</b>			
Cash in Won		(Won) 2,945,921	(Won) 2,392,346
Cash in foreign currencies		228,153	186,780
		<u>3,174,074</u>	<u>2,579,126</u>
<b>Due from banks in Won</b>			
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
		<u>8,995</u>	<u>41,584</u>
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
		<u>2,214</u>	<u>10,113</u>
		<u>2,763,457</u>	<u>1,532,179</u>
	Present value discounts <sup>1*</sup>	(12,810)	(21,156)
		<u>2,750,647</u>	<u>1,511,023</u>
<b>Due from banks in foreign currencies</b>			
Bank of Korea	Demand deposits	12,415	25,677
Other banks	Demand deposits	71,879	104,073
	Time deposits		15,193
		<u>71,879</u>	<u>119,266</u>

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Off-shore	Demand deposits	3,354	5,064
Others	Other deposits	513,976	359,200
		601,624	509,207
		(Won) 6,526,345	(Won) 4,599,356

<sup>1</sup>\* Present value discounts are related to the (Won)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.).

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

<i>(in millions of Won)</i>	<b>Due from Banks in Won</b>	<b>Due from Banks in Foreign Currencies</b>	<b>Total</b>
Due in 3 months or less	(Won) 2,622,647	(Won) 523,767	(Won) 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
	(Won) 2,763,457	(Won) 601,624	(Won) 3,365,081

**Kookmin Bank**

**Notes to Non-Consolidated Financial Statements**

**December 31, 2003 and 2002**

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

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>	<u>Restrictions</u>
Reserve deposits in the Bank of Korea	(Won) 2,612,248	(Won) 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
	<u>2,767,398</u>	<u>1,519,931</u>	
Present value discounts	(12,810)	(21,156)	
	<u>(Won) 2,754,588</u>	<u>(Won) 1,498,775</u>	

**4. Securities**

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

<i>(in millions of Won)</i>	<u>2003</u>	<u>2002</u>
Trading	(Won) 4,482,948	(Won) 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
	<u>(Won) 28,101,845</u>	<u>(Won) 30,940,750</u>

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

<i>(in millions of Won)</i>	<u>Unrealized</u>		<u>Book Value</u>	<u>Fair value</u>
	<u>Gain</u>	<u>Loss</u>		

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<b>Trading</b>				
Equity securities	(Won) 12,760	(Won) 767	(Won) 113,171	(Won) 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
	<u>(Won) 84,604</u>	<u>(Won) 13,628</u>	<u>(Won) 4,482,948</u>	<u>(Won) 4,482,948</u>

(in millions of Won)

	<b>Impairment</b>		<b>Capital Adjustments</b>		<b>Book Value</b>	<b>Fair value<sup>1*</sup></b>
	<b>Reversal of</b>	<b>Loss</b>	<b>Gain</b>	<b>Loss</b>		
<b>Available-for-Sale</b>						
Equity securities	(Won)	(Won) 45,214	(Won) 25,292	(Won) 14,873	(Won) 439,791	(Won) 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
	<u>(Won) 75,553</u>	<u>(Won) 414,509</u>	<u>(Won) 197,577</u>	<u>(Won) 59,590</u>	<u>(Won) 17,088,357</u>	<u>(Won) 17,088,357</u>



**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002***(in millions of Won)*

	Impairment		Unrealized Holding		Book Value	Fair value
	Reversal of	Loss	Gain	Loss		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 87,993	(Won) 4,061	(Won) 2,489,998	(Won) 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
	(Won)	(Won)	(Won) 167,764	(Won) 7,661	(Won) 5,979,341	(Won) 6,139,444

<sup>1</sup>\* 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 (Won)2,178 million of impairment loss recognized before the merger date as part of net unrealized gain on investments in associates, and (Won)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 (Won)2,402 million of beneficiary certificates that have been reclassified from trading securities due to restrictions on redemption. (Won)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	(Won) 545	(Won) 4,002	(Won) 55,674	(Won) 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
	(Won) 177,359	(Won) 9,993	(Won) 5,676,973	(Won) 5,676,973

*(in millions of Won)***Impairment****Capital Adjustments**

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	Reversal of	Loss	Gain	Loss	Book Value	Fair value <sup>1*</sup>
<b>Available-for-Sale</b>						
Equity securities	(Won) 15,318	(Won) 222,309	(Won) 20,317	(Won) 34,416	(Won) 646,114	(Won) 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
	(Won) 27,698	(Won) 300,091	(Won) 231,410	(Won) 50,961	(Won) 13,173,700	(Won) 13,173,700

## Kookmin Bank

## Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

(in millions of Won)

	Impairment		Unrealized Holding		Book Value	Fair value
	Reversal of	Loss	Gain	Loss		
<b>Held-to-Maturity</b>						
Government and municipal bonds	(Won)	(Won)	(Won) 108,236	(Won) 92	(Won) 2,381,372	(Won) 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
	(Won)	(Won)	(Won) 299,707	(Won) 2,174	(Won) 10,986,915	(Won) 11,284,448

<sup>1</sup>\* 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)	Owner-ship (%)	Acquisition Cost	Beginning Balance <sup>1</sup> *	Equity Method <sup>2</sup> *			Book Value	
				N/I	R/E	C/A	2003	2002
<b>Domestic Associates</b>								
Kookmin Credit Card <sup>3</sup> *	74.27	(Won) 272,274	(Won) 681,960	(Won) 211,202	(Won)	(Won)	(Won)	(Won) 681,960
KB Investment	99.89	155,311	67,289	5,295	(2,334)	7,023	77,273	67,289
Kookmin Data System	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
Joeun 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

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<b>Foreign Associates</b>								
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	
		(Won) 852,461	(Won) 1,169,495	(Won) 267,870	(Won) (2,727)	(Won) 9,723	(Won) 551,199	(Won) 1,103,162

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

<sup>2\*</sup> 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.

<sup>3\*</sup> 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 (Won)172,024 million of its loans to, Alpha Capital Corp., for (Won)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 (Won)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.

**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 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 (Won)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 (Won)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 (Won)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 (Won)4,910,369 million and (Won)4,439,624 million, respectively.

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 (Won)118,720 million were purchased by the Bank for a total acquisition cost of (Won)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)

	Available-for-sale		Held-to-maturity	
	Book Value	Fair value	Book Value	Fair value
<b>Maturities</b>				
Due in 1 year or less	(Won) 9,622,944	(Won) 9,622,944	(Won) 1,815,377	(Won) 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		
	(Won) 16,617,694	(Won) 16,617,694	(Won) 5,979,341	(Won) 6,139,444

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

(in millions of Won)

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Country</b>				
Korea	(Won) 27,784,440	98.87	(Won) 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
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00

## Kookmin Bank

## Notes to Non-Consolidated Financial Statements

December 31, 2003 and 2002

*(in millions of Won)*

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Type</b>				
Fixed rate bonds	(Won) 16,114,291	57.34	(Won) 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
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00

*(in millions of Won)*

	2003		2002	
	Book Value	Ratio(%)	Book Value	Ratio(%)
<b>By Industry</b>				
Government and municipalities	(Won) 9,870,850	35.13	(Won) 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
	(Won) 28,101,845	100.00	(Won) 30,940,750	100.00

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 <sup>1*</sup>	Book Value
Korea Housing Guarantee Co., Ltd.	(Won) 68,648	(Won) 119,991	(Won) 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

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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
	(Won) 292,785	(Won) 318,313	(Won) 222,190

<sup>1</sup>\* 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.



**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

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

Related Transactions	Restrictions		Restricted securities	
	Placed with	Amount	Book Value	Pledge Value
Bonds sold under REPO agreements	Customers	(Won) 3,623,156	(Won) 4,224,282	(Won) 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
			<u>(Won) 5,743,690</u>	<u>(Won) 5,701,160</u>

## Kookmin Bank

## 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:

<i>(in millions of Won)</i>		<u>2003</u>	<u>2002</u>
<b>Loans in Won</b>			
Corporate loans	Operation loans		
	General operation loans	(Won) 28,884,554	(Won) 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
		<u>35,351,506</u>	<u>35,369,066</u>
	Facility loans		
	General facility loans	5,413,333	4,676,506
	Other facility loans	1,218,370	1,287,125
		<u>6,631,703</u>	<u>5,963,631</u>
		<u>41,983,209</u>	<u>41,332,697</u>
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
		<u>81,083,595</u>	<u>74,208,918</u>
Public loans	Public operation loans	526,227	738,632
	Public facility loans	42,473	39,414
		<u>568,700</u>	<u>778,046</u>
Other loans	Property formation loans	62,963	95,252
	Inter-bank loans	12,815	20,941
	Others	3,962	5,449
		<u>79,740</u>	<u>121,642</u>

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		123,715,244	116,441,303
<b>Loans in foreign currencies</b>	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
		<u>4,019,930</u>	<u>4,417,176</u>
<b>Call loans</b>	In Won	1,640,000	33,600
	In foreign currencies	5,351	248,857
	Inter-bank reconciliation funds		89,287
		<u>1,645,351</u>	<u>371,744</u>
<b>Privately placed debentures</b>		<u>1,787,131</u>	<u>1,276,080</u>
<b>Other loans</b>		<u>12,457,419</u>	<u>6,633,396</u>
<b>Allowances for loan losses (Note 6)</b>		<u>(3,690,341)</u>	<u>(2,378,696)</u>
<b>Present value discounts</b>		<u>(22,780)</u>	<u>(30,442)</u>
<b>Net deferred loan origination fees and costs</b>		<u>8,567</u>	
		<u>(Won) 139,920,521</u>	<u>(Won) 126,730,561</u>

**Kookmin Bank**

**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:

<i>(in millions of Won)</i>	Period (years)	Balances Before		Equity Conversion	CB Conversion	Restructured Amount	Present Value Discounts
		Restructuring	Exemption				
Workout	1 - 6	(Won) 696,945	(Won)	(Won)	(Won) 581,075	(Won) 115,870	(Won) 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 <sup>1*</sup>	2 - 7	520,873	326,456	134	3,668	190,615	10,658
		<u>(Won) 1,299,994</u>	<u>(Won) 326,610</u>	<u>(Won) 134</u>	<u>(Won) 611,752</u>	<u>(Won) 361,498</u>	<u>(Won) 22,780</u>

<sup>1\*</sup> The Bank wrote off (Won)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 (Won)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 :

<i>(in millions of Won)</i>	WACC(%)	Beginning Balance	Increase	Decrease	Ending Balance
Present value discounts	6.10 - 17.00	(Won) (30,442)	(Won) (11,767)	(Won) (19,429)	(Won) (22,780)
Deferred loan incidental income			9,161	594	8,567
		<u>(Won) (30,442)</u>	<u>(Won) (2,606)</u>	<u>(Won) (18,835)</u>	<u>(Won) (14,213)</u>

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

<i>(in millions)</i>	Loans in Won	Loans in Foreign	Bills Bought	Credit Card	Call Loans	Privately placed	Others	Total
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<i>of Won)</i>	<u>Currencies</u>				<u>Debentures</u>			
Due in 3 months or less	(Won) 16,278,866	(Won) 1,123,619	(Won) 496,406	(Won) 6,549,874	(Won) 1,645,351	(Won) 561,682	(Won) 1,600,828	(Won) 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
	<u>(Won) 123,715,244</u>	<u>(Won) 4,019,930</u>	<u>(Won) 570,721</u>	<u>(Won) 10,249,831</u>	<u>(Won) 1,645,351</u>	<u>(Won) 1,787,131</u>	<u>(Won) 1,636,867</u>	<u>(Won) 143,625,075</u>

**Kookmin Bank****Notes to Non-Consolidated Financial Statements****December 31, 2003 and 2002**

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

<i>(in millions of Won)</i>	<b>Loans in Won</b>	<b>Loans in Foreign Currencies</b>	<b>Others</b>	<b>Total</b>	<b>Percentage(%)</b>
Korea	(Won) 123,715,244	(Won) 2,770,237	(Won) 15,847,217	(Won) 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
	<b>(Won) 123,715,244</b>	<b>(Won) 4,019,930</b>	<b>(Won) 15,889,901</b>	<b>(Won) 143,625,075</b>	<b>100.00</b>

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

<i>(in millions of Won)</i>	<b>Loans in Won</b>	<b>Loans in Foreign Currencies</b>	<b>Others</b>	<b>Total</b>	<b>Percentage(%)</b>
<b>Industrial loans</b>					
Financial institutions	(Won) 620,339	(Won) 817,750	(Won) 2,355,417	(Won) 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
	<b>42,439,857</b>	<b>3,085,335</b>	<b>5,488,821</b>	<b>51,014,013</b>	<b>35.52</b>
<b>Household loans</b>	<b>81,150,520</b>	<b>914,545</b>	<b>8,897,467</b>	<b>90,962,532</b>	<b>63.33</b>
<b>Public and other loans</b>	<b>124,867</b>	<b>20,050</b>	<b>1,503,613</b>	<b>1,648,530</b>	<b>1.15</b>
	<b>(Won) 123,715,244</b>	<b>(Won) 4,019,930</b>	<b>(Won) 15,889,901</b>	<b>(Won) 143,625,075</b>	<b>100.00</b>

**6. Allowances for Loan Losses**

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

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(in millions of Won)

	2003	2002
	<u>                    </u>	<u>                    </u>
Loans in Won	(Won) 2,271,198	(Won) 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
	<u>                    </u>	<u>                    </u>
	<b>(Won) 3,690,341</b>	<b>(Won) 2,378,696</b>
	<u>                    </u>	<u>                    </u>

## Kookmin Bank

## 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:

<i>(in millions of Won)</i>		Normal	Pre-cautionary	Substandard	Doubtful	Estimated Loss	Total
Loans in Won	Balance	(Won) 114,948,955	(Won) 5,342,015	(Won) 2,264,071	(Won) 935,330	(Won) 206,411	(Won) 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



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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 <sup>1*</sup>	(Won) 130,958,721	(Won) 7,701,744	(Won) 2,333,452	(Won) 2,146,224	(Won) 462,154	(Won) 143,602,295
	Allowances <sup>2*</sup>	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

<sup>1\*</sup> The above amounts of loan balances are net of present value discounts.

<sup>2\*</sup> The above amounts of allowances for loan losses do not include the allowances for suspense receivables and other allowances

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

<i>(in millions of Won)</i>	<b>2003</b>	<b>2002</b>
<b>Beginning balance</b>	(Won) 2,378,696	(Won) 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 wit		