

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

OR

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

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant's name into English)

The Republic of Korea

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(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class

Name of each exchange on which registered

American Depositary Shares, each representing

New York Stock Exchange Inc.

one share of Common Stock

Common Stock, par value (Won)5,000 per share

New York Stock Exchange Inc.*

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

None

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

None

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

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

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

Yes No

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

Item 17 Item 18

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

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

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

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

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

In this annual report:

references to we, us or Kookmin Bank are to Kookmin Bank and, unless the context otherwise requires, its subsidiaries and, for periods of time prior to the merger with H&CB, the former Kookmin Bank;

references to Korea or the Republic are to the Republic of Korea;

references to the government are to the government of the Republic of Korea;

references to Won or (Won) are to the currency of Korea; and

references to U.S. dollars, US dollars, \$ or US\$ are to United States dollars.

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

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

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FORWARD-LOOKING STATEMENTS

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

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

our ability to successfully implement our strategy;

future levels of non-performing loans;

our growth and expansion;

the adequacy of allowance for credit and investment losses;

technological changes;

interest rates;

investment income;

availability of funding and liquidity;

cash flow projections;

our exposure to market risks; and

adverse market and regulatory conditions.

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

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

general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

foreign exchange rates;

prices and yields of equity and debt securities;

the performance of the financial markets in Korea and internationally;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environments in Korea; and

regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Table of Contents**Item 3. KEY INFORMATION****Item 3A. Selected Financial Data**

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

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

Consolidated income statement data

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

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Weighted average common shares
outstanding-basic (in thousands of
common shares)

| | | | | | | |
|--|---------|---------|---------|---------|---------|---------|
| Weighted average common shares outstanding-diluted (in thousands of common shares) | 192,765 | 219,797 | 234,541 | 328,107 | 326,000 | 326,000 |
|--|---------|---------|---------|---------|---------|---------|

| | | | | | | |
|---|-----------|----------|-----------|-----------|-------------|---------|
| Cash dividends paid per common share (3)(5)(6) | (Won) 338 | (Won) 84 | (Won) 844 | (Won) 100 | (Won) 1,000 | \$ 0.84 |
|---|-----------|----------|-----------|-----------|-------------|---------|

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US\$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) As discussed in Notes 1 and 30 to our consolidated financial statements, for the purpose of calculating earnings per share, all historical per share and share amounts have been restated to reflect (a) the exchange of former Kookmin Bank shares, at a ratio of 1.688346:1, in connection with our merger with H&CB, (b) a 6% stock dividend approved on March 22, 2002.
- (4) Diluted earnings per share gives effect to the potential dilution that could occur if convertible securities, options or other contracts to issue common stock were converted into or exercised for common stock for the relevant periods. Effective from 2003, we had one category of potentially dilutive common shares, which was shares issuable on exercise of stock options granted to directors and employees. In prior periods, we had two additional categories of potentially dilutive common shares, which were shares issuable on conversion of convertible debentures and shares issuable on conversion of preferred shares.
- (5) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless these are the same.
- (6) On December 15, 2001, our board of directors passed a resolution recommending a 6% stock dividend and a cash dividend of (Won)100 per common share (before dividend tax), representing 2% of the par value of each share, for the fiscal year ended December 31, 2001. This resolution was approved and ratified by our stockholders on March 22, 2002. For this dividend, 17,979,954 common shares were issued and distributed to stockholders who were registered in our stockholder registry on December 31, 2001. No stock dividends were declared for the fiscal years ended December 31, 1999, 2000, 2002 or 2003.

Table of Contents**Consolidated balance sheet data**

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

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

- (1) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US\$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other securities.

Table of Contents**Profitability ratios and other data**

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

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

Capital ratios

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

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

Credit portfolio ratios and other data

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As of December 31,

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

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

Table of Contents**Selected Statistical Information***Average Balance Sheets and Related Interest*

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

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

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

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Year ended December 31,

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

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

- (1) Average balances and interest income and expenses for all periods have been restated to exclude the assets, liabilities and results of disposed subsidiaries that qualify for discontinued operations. See Note 4 to our consolidated financial statements.
- (2) Data reflect the impact of the merger between the former Kookmin Bank and H&CB effected on November 1, 2001, which was accounted for using the purchase method of accounting.
- (3) Average balances are based on (a) daily balances for our primary banking operations and (b) quarterly balances for subsidiaries.
- (4) Interest income figures include dividends on securities and cash interest received on non-accruing loans. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Non-Accrual Loans and Past Due Accruing Loans.
- (5) We do not invest in any tax-exempt securities.
- (6) Interest income from credit cards includes principally cash advance fees of (Won)1,271 billion, (Won)1,719 billion and (Won)1,517 billion and interest on credit card loans of (Won)273 billion, (Won)830 billion and (Won)591 billion for the years ended December 31, 2001, 2002 and 2003, respectively.
- (7) Information related to investment securities classified as available-for-sale has been computed using amortized cost, and therefore does not give effect to changes in fair value that are reflected as a component of stockholders' equity.

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

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

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

Analysis of Changes in Net Interest Income Volume and Rate Analysis

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

| Fiscal 2002 vs. Fiscal 2001 Increase/(decrease) | | | Fiscal 2003 vs. Fiscal 2002 Increase/(decrease) | | |
|--|------|-------|--|------|-------|
| due to change in | | | due to change in | | |
| Volume | Rate | Total | Volume | Rate | Total |
| — | — | — | — | — | — |