KOOKMIN BANK
Form 20-F
June 17, 2003
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As filed with the Securities and Exchange Commission on June 17, 2003

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C.

FORM 20-F

ANNUAL REPORT PURSUANT TO

SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission file number 1-15258

Kookmin Bank

(Exact name of Registrant as specified in its charter)

Kookmin Bank

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

9-1, 2-ga, Namdaemoon-ro, Jung-gu

Seoul 100-703, Korea

(Address of principal executive offices)

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

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

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

None

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

None

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

328,258,685 shares of common stock, par value (Won)5,000 per share

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

x Yes ¨ No

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

¨ Item 17 x Item 18

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

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

¨ Yes ¨ No

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

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CERTAIN DEFINED TERMS

For the years ended December 31, 1999, 2000, 2001 and 2002 and as of December 31, 1999, 2000, 2001 and 2002, 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 and 2002 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 document:

- 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, 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, 2002, which was (Won)1,186.3 = 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, which include statements regarding the period following the merger.

Words and phrases such as will, aim, will likely result, will continue, contemplate, seek to, future, objective, goal, sh pursue, anticipate, estimate, expect, project, intend, plan, believe and words and terms of similar substance used in conn with any discussion of 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 particular, risks related to our business, including those discussed under Risk Factors, could cause actual results to differ materially. 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 or allowance for credit and investment losses;
- technological changes;
- investment income;
- cash flow projections;
- our exposure to market risks;
- the failure to realize the anticipated benefits of the merger; and
- adverse market and regulatory conditions.

By their nature, certain of the market risk disclosures 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 net interest income could materially differ from those that have been estimated.

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

general economic and political conditions in Korea;

other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

unanticipated turbulence in interest rates;

foreign exchange rates;

equity prices or other rates or prices;

the performance of the financial markets in Korea and globally;

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 our entirety by the cautionary statements contained or referred to in this section.

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Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

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

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 document. Historical results do not necessarily predict future results.

Consolidated income statement data

	Year ended December 31,				
	1999	2000	2001 (1)	2002	2002 (2)
	(in billions of Won, except per common share data)				(in millions of US$, except per common share data)
Interest and dividend income	(Won) 6,342	(Won) 7,263	(Won) 8,895	(Won) 13,450	$ 11,338
Interest expense	4,307	4,505	5,317	6,734	5,677

Net interest income	2,035	2,758	3,578	6,716	5,661
Provision for loan losses, guarantees and acceptances	964	67	1,261	3,886	3,275
Non-interest income	1,370	908	1,681	3,098	2,612
Non-interest expense	1,499	1,614	2,354	4,387	3,699
Income tax expense	381	740	621	597	504
Minority interest	6	81	84	(211)	(178)
Net income from discontinued operations after income taxes	(74)	(249)	8	97	82
Extraordinary gain and cumulative effect of accounting change, net of tax		13	45		
Net income	(Won) 481	(Won) 928	(Won) 992	(Won) 1,252	$ 1,055
Net income per common share (3):					
Net income-basic	(Won) 2,982	(Won) 4,931	(Won) 4,700	(Won) 3,939	$ 3.32
Net income-diluted (4)	2,506	4,243	4,256	3,831	3.23
Weighted average common shares outstanding-basic (in thousands of common shares)	161,188	188,107	211,037	317,787	317,787
Weighted average common shares outstanding-diluted (in thousands of common shares)	192,765	219,797	234,541	328,107	328,107
Cash dividends paid per common share (3)(5)(6)	(Won) 338	(Won) 84	(Won) 844	(Won) 100	$ 0.08

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(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)1,186.3 to US$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.
(3) As discussed in Notes 1 and 3 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 and (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. We have three categories of potentially dilutive common shares: shares issuable on exercise of stock options granted to directors and employees; 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 or 2002.

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Consolidated balance sheet data

	As of December 31,				
	1999	2000	2001 (1)	2002	2002 (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	$ 2,805
Restricted cash	706	1,540	4,373	1,580	1,332
Interest-bearing deposits in other banks	629	1,587	592	564	476
Call loans and securities purchased under resale agreements	377	2,491	2,012	229	193
Trading assets	3,636	3,104	6,874	6,368	5,368
Investments (3)	16,293	17,702	26,231	24,223	20,419
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 and (Won)5,195 billion in 2002)	42,351	57,041	117,452	140,756	118,651
Due from customers on acceptances	995	1,916	1,887	881	743
Premises and equipment, net	1,110	1,126	1,846	2,121	1,788
Accrued interest and dividends receivable	1,090	1,107	1,160	1,116	941
Security deposits	687	690	1,244	1,337	1,127
Goodwill and other intangible assets	211	582	743	631	531
Other assets	1,108	204	697	965	814
Total assets	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	$ 155,188
Liabilities and Stockholders Equity					
Deposits:					
Interest bearing	(Won) 40,079	(Won) 54,201	(Won) 110,895	(Won) 118,654	$ 100,020
Non-interest bearing	2,659	1,982	4,141	3,745	3,157
Call money	1,333	581	2,701	306	258
Trading liabilities	298	718	287	625	527
Acceptances outstanding	995	1,916	1,887	881	743
Other borrowed funds	4,816	6,369	10,812	15,856	13,366
Accrued interest payable	2,105	2,311	4,617	4,463	3,762
Secured borrowings	423	1,468	5,501	7,864	6,629
Long-term debt	14,212	14,797	16,626	20,165	16,998
Other liabilities	1,853	2,482	2,742	2,634	2,220
Total liabilities	(Won) 68,773	(Won) 86,825	(Won) 160,209	(Won) 175,193	$ 147,680
Minority interest	21	221	308	71	60
Common stock	1,498	1,498	1,588	1,641	1,383
Additional paid-in capital	1,141	1,242	4,960	5,146	4,338
Other	(79)	1,005	1,087	2,048	1,727
Stockholders equity	2,560	3,745	7,635	8,835	7,448
Total liabilities, minority interest and stockholders equity	(Won) 71,354	(Won) 90,791	(Won) 168,152	(Won) 184,099	$ 155,188

(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)1,186.3 to US$1.00, the noon buying rate in effect on December 31, 2002 as quoted by the Federal Reserve Bank of New York in the United States.
(3) Consists of available-for-sale securities, held-to-maturity securities, venture capital securities and other investments.

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Profitability ratios and other data

	Year ended December 31,			
	1999	2000	2001	2002
	(percentages)			
Net income as a percentage of:				
Average total assets (1)	0.68%	1.15%	0.92%	0.71%
Average stockholders equity (1)	23.19	29.42	20.59	13.50
Dividend payout ratio (2)	9.83	1.61	15.06	1.80
Net interest spread (3)	2.68	3.17	3.17	3.71
Net interest margin (4)	3.18	3.68	3.57	4.02
Efficiency ratio (5)	44.03	44.04	44.77	57.44
Cost-to-average assets ratio (6)	2.13	2.01	2.17	4.18
Won loans (gross) as a percentage of Won deposits	97.64	101.53	104.25	115.68
Total loans (gross) as a percentage of total deposits	105.17	105.72	105.09	119.14

(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, net of non-interest expense.
(6) Represents the ratio of non-interest expense to average total assets.

Capital ratios

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

(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. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.
(2) The method of calculating our capital and capital adequacy ratios was changed in 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%, our Tier 2 capital ratio would have been 3.86% and our capital adequacy ratio would have been 10.47%.

Credit portfolio ratios and other data

	As of December 31,			
	1999	2000	2001	2002

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

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

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Selected Statistical Information

Average Balance Sheets and Related Interest

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

	Year ended December 31,								
	2000 (1)			2001 (1)(2)			2002 (1)		
	Average Balance (3)	Interest Income (4)(5)(6)(7)	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) 2,701	(Won) 197	7.29%	(Won) 949	(Won) 59	6.22%	(Won) 1,734	(Won) 61	3.52%
Call loans and securities purchased under resale agreements	821	55	6.70	2,093	101	4.83	811	34	4.19
Trading securities	2,571	179	6.96	3,490	172	4.93	5,953	112	1.88
Investment securities (7)	17,623	1,652	9.37	21,152	1,540	7.28	25,090	1,419	5.66
Loans:									
Commercial and industrial	27,303	2,246	8.23	32,390	2,664	8.22	38,733	2,744	7.08
Construction loans	1,955	182	9.31	2,503	224	8.95	5,336	384	7.20
Other commercial	1,140	105	9.21	1,339	116	8.66	1,380	80	5.80
Mortgage and home equity	7,081	770	10.87	12,988	1,145	8.82	41,422	3,287	7.94
Other consumer	7,176	811	11.30	12,258	1,194	9.74	25,519	2,130	8.35
Credit cards (6)	5,518	982	17.80	9,938	1,615	16.25	19,840	3,166	15.96
Foreign commercial and industrial	1,087	84	7.73	1,120	65	5.80	1,255	33	2.63
	51,260	5,180	10.11	72,536	7,023	9.68	133,485	11,824	8.86
Total average interest earning assets	74,976	7,263	9.69	100,220	8,895	8.88	167,073	13,450	8.05
Cash and due from banks	2,221			2,804			4,697		
Foreign exchange contracts and derivatives	321			787			863		
Premises and equipment	1,016			1,118			2,033		

Due from customers on acceptance	1,456			1,202			322		
Loan loss allowance	(2,130)			(2,250)			(4,127)		
Assets of discontinued operations	1,219			909			679		
Other non-interest earning assets	1,401			3,529			4,837		
Total average non-interest earning assets	5,504			8,099			9,304		
Total average assets	(Won) 80,480	(Won) 7,263	9.02%	(Won) 108,319	(Won) 8,895	8.21%	(Won) 176,377	(Won) 13,450	7.63%

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	Year ended December 31,								
	2000 (1)			2001 (1)(2)			2002 (1)		
	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) 345	(Won) 8	2.32%	(Won) 499	(Won) 8	1.60%	(Won) 598	(Won) 4	0.67%
Certificates of deposit	1,878	129	6.87	2,023	123	6.08	2,120	102	4.81
Other time deposits	26,660	2,051	7.69	33,231	2,397	7.21	66,454	3,260	4.91
Savings deposits	15,976	438	2.74	23,665	446	1.88	35,206	413	1.17
Mutual installment deposits	4,676	410	8.77	7,238	563	7.78	12,235	764	6.24
Deposits (total)	49,535	3,036	6.13	66,656	3,537	5.31	116,613	4,543	3.90
Call money	1,214	55	4.53	960	39	4.06	1,803	71	3.94
Borrowings from the Bank of Korea	892	42	4.71	1,152	38	3.30	1,337	33	2.47
Other short-term borrowings	3,876	291	7.51	7,717	520	6.74	9,077	488	5.38
Secured borrowings	795	59	7.42	3,701	297	8.02	5,888	325	5.52
Long-term debt	12,854	1,022	7.95	12,934	886	6.85	20,260	1,275	6.29
Total average interest bearing liabilities	69,166	4,505	6.51	93,120	5,317	5.71%	154,978	6,735	4.35
Demand deposits	1,677			1,871			2,934		
Foreign exchange contracts and derivatives	341			751			752		
Acceptances to customers	1,456			1,202			536		
Liabilities of discontinued operations	1,482			1,197			795		
Other non-interest bearing liabilities	3,205			5,360			7,110		
Total average non-interest bearing liabilities	8,161			10,381			12,127		
Total average liabilities	77,327	4,505	5.83	103,501	5,317	5.14%	167,105	6,735	4.03
Stockholders equity	3,153			4,818			9,272		

Total liabilities and stockholders equity	(Won) 80,480	(Won) 4,505	5.60%	(Won) 108,319	(Won) 5,317	4.91%	(Won) 176,377	(Won) 6,735	3.82%

(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)777 billion, (Won)1,271 billion and (Won)1,719 billion and interest on credit card loans of (Won)204 billion, (Won)273 billion and (Won)830 billion for the years ended December 31, 2000, 2001 and 2002, 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,		
	2000	2001	2002
	(percentages)		
Net interest spread (1)	3.17%	3.17%	3.70%
Net interest margin (2)	3.68	3.57	4.02
Average asset liability ratio (3)	108.40	107.62	107.80

(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 2001 compared to 2000 and 2002 compared to 2001. 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 2001 vs. Fiscal 2000 Increase/(decrease) due to change in			Fiscal 2002 vs. Fiscal 2001 Increase/(decrease) due to change in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest earning assets						
Cash and interest earning deposits in other banks	(Won) (112)	(Won) (26)	(Won) (138)	(Won) 35	(Won) (33)	(Won) 2
Call loans and securities purchased under resale agreements	65	(19)	46	(55)	(12)	(67)
Trading securities	54	(61)	(7)	81	(141)	(60)
Investment securities	296	(408)	(112)	258	(379)	(121)
Loans						
Commercial and industrial	418		418	479	(399)	80
Construction loans	49	(7)	42	211	(51)	160
Other commercial	18	(7)	11	3	(39)	(36)
Mortgage and home equity	543	(168)	375	2,267	(125)	2,142
Other consumer	508	(125)	383	1,128	(192)	936
Credit cards	725	(92)	633	1,581	(30)	1,551
	2	(21)	(19)	7	(39)	(32)

Foreign commercial and industrial						
Total interest income	2,566	(934)	1,632	5,995	(1,440)	4,555
Interest bearing liabilities						
Deposits						
Demand deposits	3	(3)		1	(5)	(4)
Certificates of deposit	10	(16)	(6)	6	(27)	(21)
Time deposits (other than certificates of deposit)	480	(134)	346	1,816	(953)	863
Savings deposits	171	(163)	8	171	(204)	(33)
Mutual installment deposits	204	(51)	153	329	(128)	201
Call money	(11)	(5)	(16)	33	(1)	32
Borrowings from the Bank of Korea	10	(14)	(4)	6	(11)	(5)
Other short-term borrowings	262	(33)	229	83	(115)	(32)
Secured borrowings	233	5	238	140	(112)	28
Long-term debt	6	(142)	(136)	466	(77)	389
Total interest expense	1,368	(556)	812	3,051	(1,633)	1,418
Total net interest income	(Won) 1,198	(Won) (378)	(Won) 820	(Won) 2,944	(Won) 193	(Won) 3,137

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Exchange Rates

The tables below set forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2002, which was (Won)1,186.3 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 13, 2003, the noon buying rate was (Won)1,192.0 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average (1)	Period-End
1998	1,196.0	1,812.0	1,367.3	1,206.0
1999	1,125.0	1,243.0	1,188.2	1,136.0
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
December 2002	1,186.3	1,221.0		
2003 (through June 13)	1,164.6	1,262.0	1,204.7	1,192.0
January 2003	1,164.6	1,197.3		
February	1,173.0	1,206.0		
March	1,184.6	1,260.0		
April	1,204.0	1,262.0		
May	1,192.0	1,217.0		
June (through June 13)	1,192.0	1,203.0		

Source: Federal Reserve Bank of New York.

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

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Item 3B. *Capitalization and Indebtedness*

Not Applicable

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

Not Applicable

Item 3D. *Risk Factors*

Risks relating to our retail credit portfolio

As we have been experiencing increases in delinquencies in retail loans, including our mortgage and home equity loan and our credit card portfolios, we may not be able to sustain the rate of growth or credit quality of our retail loans, including, in particular, our mortgage and home equity loans and our credit card-related loans.

In recent years, consumer debt has increased rapidly in Korea. This has also resulted in increased delinquencies. As the leading retail bank in Korea, our portfolio of retail loans, in particular, mortgage and home equity loans, and the aggregate outstanding balance of our credit card accounts (particularly cash advances and credit card loans) have grown from (Won)16,218 billion and (Won)8,321 billion, respectively, as of December 31, 2000 to (Won)74,261 billion and (Won)22,643 billion, respectively, as of December 31, 2002, as a result of both the merger with H&CB effective November 1, 2001 and significant organic growth. As of December 31, 2002, our retail loans and credit card accounts represented 50.9% and 15.5% of our total lending, respectively. The growth of our retail lending and credit card businesses offered higher margins than other lending activities and contributed significantly to the increase in our interest income and our profitability. During the second half of 2002, we were unable to sustain this growth due to increasing market saturation, competition and government regulation in the retail and credit card segments and other factors, and we may not be able to achieve such growth in the future, which may hurt our future performance and prospects.

The growth of our retail loan and credit card portfolios in recent years has been accompanied by increasing delinquencies, which has required us to increase our loan loss provisions and charge-offs and has adversely affected our financial condition and results of operations during and for the year ended December 31, 2002. Our non-performing retail loans (defined as those that are over 90 days past due) increased from (Won)166 billion as of December 31, 2000 to (Won)1,276 billion as of December 31, 2002, as a result of both the merger with H&CB and higher delinquencies, and we expect further increases in 2003. According to the Financial Supervisory Service, on a Korean GAAP basis, non-performing loans at 19 banks in Korea rose approximately 24% to (Won)18.7 trillion in March 2003, up from (Won)15 trillion in December 2002, due mainly to escalating overdue loans in the credit card sector and struggling corporate clients. In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)227 billion as of December 31, 2000 to (Won)2,440 billion as of December 31, 2002, and our charge-offs, net of recoveries, increased from (Won)7 billion in 2000 to (Won)1,372 billion in 2002. Our delinquency ratio (which represents the ratio of amounts that are overdue by one day or more to total outstanding balances) with respect to our credit card portfolio was 13.7%, 7.8%, and 20.6% as of December 31, 2000, December 31, 2001 and December 31, 2002, respectively. Credit card delinquencies may increase further in the future as a result of, among other things, adverse economic developments in Korea and the inability of

Korean consumers to manage increased household debt, as reflected in the growing practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

In addition, in line with industry practice, we have restructured a large portion of delinquent credit card account balances (defined as balances overdue for one day or more) as loans. As of December 31, 2002, these loans amounted to (Won)1,286 billion. Because these loans are not treated as being

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delinquent at the time of conversion or for a period of time thereafter, our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans.

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

We face intense competition in the retail lending and credit card businesses.

Competition in the retail lending and credit card segments is intense. Most Korean commercial banks and financial institutions are focusing their business on, and are engaged in aggressive marketing campaigns and making significant investments in, these segments. In particular, we have been experiencing increased competition in the credit card segment with the market entry of additional credit card issuers, including member companies of chaebols, foreign credit card companies and credit card subsidiaries of Korean banks. The growth and profitability of our retail and credit card operations may decline as a result of growing market saturation in the retail lending and credit card segments, increased interest rate competition, pressure to lower the fee rates applicable to our credit cards (particularly merchant fee rates) and higher marketing expenses. These factors could adversely affect the performance and credit quality of these business segments.

Government regulation of our credit card operations has increased significantly.

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

The Korean government has also enacted a number of changes to the laws governing the reporting by credit card issuers and retail lenders of their outstanding lending volumes. In particular, the Financial Supervisory Commission and the Financial Supervisory Service have increased minimum provisioning levels for credit card accounts. The Financial Supervisory Commission and the Financial Supervisory Service have also announced a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as the procedures governing which persons may receive credit cards.

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In addition, the Korean government has revised the calculation formula of the capital adequacy ratios applicable to credit card companies. These ratios are calculated under Korean GAAP. Under the revised regulations, a credit card company must have a minimum capital adequacy ratio of 8%. As of December 31, 2002, Kookmin Credit Card s capital adequacy ratio was 10.23% and its delinquency ratio (calculated by excluding the credit card accounts transferred in asset-backed securitization and as reported to the Financial Supervisory Service) was 11.38%. Furthermore, the Financial Supervisory Service has revised the calculation formula for the delinquency ratio to include assets under management, with effect from April 2003. As of December 31, 2002, using the revised formula, Kookmin Credit Card s delinquency ratio would have been 9.62%. A credit card company may be subject to certain sanctions by the Financial Supervisory Commission if (1) its delinquency ratio is 10% or more for one month or more as of the end of each fiscal quarter and (2) it recorded a net loss during the most recent fiscal year. We cannot assure you that Kookmin Credit Card will satisfy the minimum requirements set forth in the revised regulations.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March and April 2003 the Korean government announced several measures intended to support the credit card industry. These included:

- the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card issuers, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables; and

- a request that lenders extend the maturity of commercial paper of credit card companies due in June without additional terms or conditions.

However, we believe that these relief measures are likely to be temporary, and that the overall effect of the Korean government s recent regulatory initiatives has been, and may continue to be, to constrain the growth and profitability of our credit card operations. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry. For example, the Korean government could decide to discontinue tax incentives that currently apply to credit card purchases. Accordingly, our credit card operations in the future may be adversely affected by further changes in government regulation and policy.

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

Our credit card subsidiary, Kookmin Credit Card, may experience liquidity problems, which could hurt our financial condition and results of operations.

Credit card companies, including our subsidiary, Kookmin Credit Card, are among the largest Korean corporate bond issuers. Recently, however, demand for Korean corporate bonds has declined, including as a result of recent accounting scandals involving SK Global and weak conditions in the Korean economy. In addition, demand for bonds issued by credit card companies has declined as a result of concerns regarding their financial health triggered by increasing credit card delinquency levels. According to the Financial Supervisory Service, approximately (Won)51 trillion of Korean credit card companies bonds and commercial paper, including (Won)2.5 trillion of bonds issued by Kookmin Credit Card, is scheduled to mature in 2003. Kookmin Credit Card may face a liquidity shortage if it is not able

to refinance its maturing debt obligations. If Kookmin Credit Card experiences liquidity problems, it may have to rely on more expensive funding sources or curtail its business operations, which may adversely affect our overall financial condition and results of operations.

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Government regulation of our retail lending operations has increased significantly.

Due to a rapid increase in retail loans and increased credit risks relating thereto, the Financial Supervisory Commission increased the minimum provisioning requirements for retail loans with effect from the second quarter of 2002. In addition, due to a rapid increase in loans secured by housing, the Financial Supervisory Commission has implemented certain regulations that are designed to reduce the growth of such loans. Furthermore, in November 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines to enact a number of new policies that will strengthen oversight over provisioning levels and require banks to change certain aspects of their retail lending operations. These regulations and other proposed regulations may adversely affect our current or future financial condition, results of operations and capital adequacy. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans.

We are in the process of integrating our credit card operations, which has resulted in labor unrest and may also result in customer loss.

Following the merger with H&CB, we conduct our credit card business through the BC Card brand, operated by our internal business unit, and the Kookmin Card brand, operated by Kookmin Credit Card. On May 30, 2003, we entered into a merger agreement with Kookmin Credit Card to merge its operations into us and passed a board resolution to approve the merger. We plan to integrate Kookmin Credit Card s business operations with our BC Card business unit. The integrated unit will have operational autonomy with respect to its business and will be integrated based on the platform of Kookmin Credit Card. Future decisions with respect to integration of these operations may adversely affect our credit card business. For example, in May 2003, the employees of Kookmin Credit Card began a strike demanding that the contemplated merger not go forward. We recently reached an agreement with the Kookmin Credit Card employees and they returned to work. However, in the future, there may be further labor disruptions, and our labor unions may oppose our integration plans. In addition, unifying the two brands could result in the loss of overlapping customers who prefer the availability of multiple cards.

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

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

One of our core businesses is lending to small- and medium-sized enterprises (as defined under Item 4B. Business Overview Corporate Banking Small- and Medium-sized Enterprise Banking.) We estimate, based on our internal classifications made for Korean GAAP purposes, that our loans to small- and medium-sized enterprises increased from (Won)30,498 billion as of December 31, 2001 to (Won)38,871 billion as of December 2002. During the period, we estimate that non-performing loans to small- and medium-sized enterprises also increased from (Won)1,108 billion to (Won)1,391 billion, representing a decrease in the non-performing loan ratio from 3.63% as of December 31, 2001 to 3.58% as of December 31, 2002. Financial difficulties experienced by our small- and medium-sized enterprise customers as a result of, among other things, continued weakness in the economy may lead to a deterioration in asset quality of our loans to this customer segment and have an adverse impact on us. Recently, press reports have indicated that the industry-wide delinquency rates for loans and other credits to small- and medium-sized enterprises have been sharply rising, and we expect our delinquency rate for those loans to rise in 2003.

An integral part of our recent strategy relating to our small- and medium-enterprise lending business is to maintain the growth of our loans to small- and medium-sized enterprises by focusing on

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

Risks relating to our strategy

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

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

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

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

Risks relating to competition

Competition in the Korean banking industry is intense, and we may experience declining margins as a result.

We compete principally with other financial institutions in Korea, including Korean banks and branches of foreign banks operating in Korea. In the retail and small- and medium-sized enterprise lending business, which has been our traditional core business, competition has increased significantly and is expected to increase further. Most Korean banks have indicated their intention to target retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers. The resulting intense and increasing competition has made and continues to make it more difficult for us to secure retail, credit card and small- and medium-sized customers with the credit quality and on credit terms necessary to achieve our business objectives in a commercially acceptable manner.

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

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

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

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

Intense competition for deposits following the deregulation of interest rate restrictions on demand deposits may lead to a loss of our deposit customers or an increase in our funding costs.

In January 2003, the Bank of Korea announced that, as one of its proposed monetary policy objectives for 2003, it is contemplating completing the final phase of interest rate deregulation measures. The Bank of Korea has been moving to deregulate this market since 1991. Among other things, the Bank of Korea announced that it would consider removing interest rate restrictions applicable to demand deposits. This would include, for example, lifting the 1% per annum deposit interest rate ceiling applicable to passbook accounts and demand deposits offered by commercial banks, which had been imposed to protect Korean banks from excessive competition. The Bank of Korea has not, however, indicated when the proposed deregulation will be implemented. However, if this limitation is removed, banks competing for our deposit customers would be able to freely increase the interest rates on their deposit products, and we could experience a loss of our deposit customers or an increase in our funding costs.

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Risks relating to our large corporate loan portfolio

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

Of our 20 largest corporate exposures as of December 31, 2002, 10 are companies that are members of the 30 largest chaebols in Korea. As of that date, the total amount of our exposures to the 30 largest chaebols was (Won)6,675 billion, or 3.73% of our total exposures, of which (Won)290 billion, or 4.34%, were classified as substandard or below. If the quality of the exposures we have extended to chaebols declines, we would require substantial additional loan loss provisions, which would adversely affect our results of operations, financial condition and capital adequacy.

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

- As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hyundai Engineering & Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt- equity swap transactions, guarantees of overseas borrowings and injections of additional capital. In addition, restructuring procedures under the new Corporate Restructuring Promotion Act were commenced in respect of Hyundai Petrochemical.

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

- In March 2003, the principal creditor banks of SK Global, a member company of the SK Group, commenced corporate restructuring procedures against SK Global after the company publicly announced that its financial statements understated its debt by (Won)1.1 trillion and overstated its profits by (Won)1.5 trillion. This admission resulted from a government investigation of several SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. Subsequent press reports indicate that the actual liabilities of SK Global exceeded its assets by approximately (Won)4.4 trillion as of December 31, 2002 on a non-consolidated basis. These banks, including us, agreed to a temporary rollover of approximately (Won)6.6 trillion of SK Global s debt until June 18, 2003, subject to extension for an additional month. Upon expiration of the rollover period, the creditor banks may decide to put SK Global into corporate restructuring or may decide instead to start bankruptcy proceedings against SK Global. As of May 28, 2003, we had outstanding exposure of (Won)453 billion to SK Global.

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

	As of December 31, 2002				
	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Substandard or Below	Allowance for Loan Losses, Guarantees and Acceptances	Allowance for Loan Losses, Guarantees and Acceptances as a % of Exposure
	(in billions of Won, except percentages)				
Former Hyundai Group (Total)	(Won) 1,652	0.92%	16.97%	(Won) 103	6.26%
Hyundai Capital	266	0.15			