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# Press Release

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## Findings of General Examination on Kookmin Bank

The Financial Supervisory Service conducted a general examination on Kookmin Bank from April 7 to May 12, 2004, with a particular focus on the bank's management status evaluation and its compliance with the Banking Act and other pertinent laws and regulations. The findings of the general examination are summarized as follows:

### 1. Results of the Management Status Evaluation

The overall rating for Kookmin Bank's management status evaluation as of the end of March 2004 fell by one grade from the previous overall rating Kookmin Bank received at the end of September 2002. Because of weaknesses in the bank's asset quality, profitability, capital adequacy and business management, more than the customary disciplinary warning is required to appropriately address them.

In particular, the bank's asset quality significantly deteriorated. As of the end of March 2004, the loan default ratio (defaulted loans over total loans outstanding) was 4.42%, and the ratio of loans classified as substandard or below (sum of loans classified as substandard, doubtful or presumed loss over total loans outstanding) reached 4.24%, comparatively higher than those of other banks. These ratios reflect structural weaknesses in the bank's loan portfolio burdened by exposures to economy-sensitive sectors (e.g., credit card, households, and small and medium-sized companies) and high-risk businesses as well as realization of distress in the bank's credit card business with relatively large potential losses.

Mostly as a result of deteriorating asset quality and loan-loss provisioning, Kookmin Bank recorded net loss of KRW753.3 billion for 2003. For the first half of 2004, Kookmin Bank's net income came to KRW307.6 billion, which is comparatively smaller than net income reported by other banks. For the year from April 2003 to March 2004, Kookmin Banks' ROA was -0.52%.

As of the end of March this year, Kookmin Bank's BIS capital adequacy ratio fell below the 10.86% average to 10.11% mostly as a result of large losses in 2003 and acquisition of a significant block of its own stocks (KRW1.2 trillion from the government and stocks totaling KRW100 billion to be given to its employees).



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## 2. Major Deficiencies and Supervisory Actions

### (a) Deficiencies

- Improper Accounting Treatment of the Merger with Kookmin Credit Card Company (as of December 31, 2003)

In the process of merger with Kookmin Credit Card, Kookmin Bank demanded that Kookmin Credit Card either hold back or not provide for KRW1,266.4 billion in loan-loss provisioning that should have been set aside as of the merger date (September 30, 2003) so as to reduce the bank's tax liability. Kookmin Bank violated the applicable accounting standards by recording KRW1,656.4 billion (sum of KRW390 billion in loan-loss provisioning to be recognized due to differences in provisioning rules for banking and non-banking and the KRW1,266.4 billion in loan-loss provisioning) as "merger-related loan-loss provisioning (non-operating expense)."

- Improper Accounting Treatment of Contingent Losses on Asset-Backed Securities (as of December 31, 2003)

When estimating contingent losses from its credit guaranty for KRW757.0 billion in asset-backed securities issued by Kookmin Credit Card, Kookmin Bank failed to reflect the drop in recovery ratio before and after the balance sheet date and violated the accounting standards by understating KRW213.2 billion for "other provisioning (credit guaranty provisioning)."

- Improper Accounting Treatment of SPC Currency Swap (as of December 31, 2003)

In the process of merger with Kookmin Credit Card, Kookmin Bank violated the applicable accounting standards by not correcting Kookmin Credit Card's erroneous accounting of KRW27.2 billion "ABS prepayment (asset)" as "loss from closing of currency swap" and deducting it from "account for agency business (liability)."

- Misclassification of Loan Assets (as of March 31, 2004)

Kookmin Bank failed to comply with the Regulation on Supervision of Banking Business by understating KRW158.6 billion in loan-loss provisioning. This was done by overstating the expected recovery amount from collateral on loans classified as substandard or below (44,259 for KRW1,833.7 billion) and by misclassifying those loans by not appropriately taking into account the number of months during which the loans were in default.



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(b) Disciplinary Actions

- CEO of Kookmin Bank: Severe Disciplinary Warning
- Senior Executive Vice President in charge of finance: Salary reduction for three months
- Senior Executive Vice President in charge of risk management: Disciplinary warning
- Former Standing Auditor: Notification equivalent to Disciplinary Warning
- Three Team Heads: Warning
- Kookmin Bank: Institutional Warning, Monetary Fine of KRW2 billion.

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*Please forward questions, comments, or suggestions regarding this press release to the Bank Examination Department 2 (Tel: +82-2-3786-7254), Financial Supervisory Service.*