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Press Release

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The Securities and Futures Commission Takes Disciplinary Measures Against Kookmin Bank for Accounting Irregularities

On August 25, 2004, the Securities and Futures Commission (SFC) announced that Kookmin Bank will be fined KRW 2 billion for accounting standard violations in its 2003 financial statements. The monetary fine is pending final approval from the Financial Supervisory Commission (FSC). In addition, the SFC will designate an outside independent accounting firm to audit the bank for the next two years.

These above sanctions are based on the Act on External Audit of Corporations, which grants the SFC statutory authority to make the final ruling on Kookmin Bank's accounting irregularities. The Sanction Committee and the FSC will deliberate further sanctions against Kookmin Bank and its employees upon review of the results of the Financial Supervisory Service's examination of the bank's accounting and banking activities.

The SFC has also taken disciplinary measures against Samil Accounting Corporation, the auditor of Kookmin Bank. Samil has been mandated to pay an additional contribution to the Collective Loss Compensation Fund managed by the Korea Institute of Certified Public Accountants. The accounting firm will be banned from future audits of Kookmin Bank for the next two years. Additionally, the SFC has charged Samil with penalty points for negligent auditing. The two Samil Accounting Corporation accountants responsible for the accounting irregularities will be restricted from conducting audits for one year.

The SFC has reported that Kookmin Bank failed to comply with the Korean standards of accounting in the following three cases:

- The first case involves the bank's accounting practices in regard to its September 2003 merger with Kookmin Credit Card Company. Kookmin Bank set aside an additional KRW 1.6564 trillion in loan-loss provisions on behalf of its credit



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card unit. These provisions should have been taken instead by the credit card unit. Although this particular accounting practice may not materially affect the bank's consolidated financial statements based on US generally accepted accounting principles (GAAP), it undermines the bank's stand-alone financial statements. These stand-alone financial statements are tantamount to the main source of disclosure and are crucial to the supervision of accounting practices in Korea.

- Secondly, Kookmin Bank failed to set aside adequate provisions for the expected loss from its guarantee of KRW 750 billion in credit on asset backed securities issued by Kookmin Credit Card. The bank did not sufficiently take into consideration the drop in credit card payment rates at the end of the accounting period and understated its provisioning to cover its guarantees by KRW 213.2 billion.
- Finally, the loss from the early redemption of asset backed securities issued by a special purpose company and guaranteed by Kookmin Credit Card was incorrectly booked as a pre-payment on ABS. Kookmin Bank failed to correct the KRW 27.2 billion that Kookmin Credit Card claimed as an advance payment for asset backed bonds after its merger and instead deducted the amount from its debt, leading the bank to understate its net loss.

Since the 1997 financial crisis, the Korean government has consistently demonstrated the ability and strong commitment to enhance the transparency and credibility of disclosures for all corporations and financial institutions. These sanctions against Kookmin Bank reaffirm the government's resolve to impose strict regulations against accounting irregularities. Accounting irregularities and disclosure violations will not be tolerated.

Please forward questions, comments, or suggestions regarding this press release to the Accounting Supervision Department (Tel: +82-2-3786-7710; Fax: +82-2-3786-7748), Financial Supervisory Service.