

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN KOREAN GAAP AND US GAAP

The financial statements of corporations in the Republic of Korea are prepared in accordance with the relevant laws and regulations of the Republic of Korea and in conformity with accounting principles generally accepted in Korea (“**Korean GAAP**”), as established by the Korean Securities and Futures Commission (the “**FSC**”) and, effective 27th July, 2000, the Korea Accounting Standards Board. In many respects the recognition and measurement of transactions under Korean GAAP is similar to accounting principles generally accepted in the United States of America (“**U.S. GAAP**”). However, there are differences, some of which are summarized below. Also, the form and content of financial statements presented under Korean GAAP differ from that required by U.S. GAAP.

The summary below does not identify all recognition, measurement, classification, presentation or disclosure differences that would affect the manner in which transactions or events are presented in the financial statements and footnotes. This summary is not an exhaustive list of all differences between Korean and U.S. GAAP. In making an investment decision, investors must rely upon their own examination of the Bank, the terms of the offering and the Bank’s financial information. Potential investors should consult their own professional advisors for an understanding of the differences between Korean GAAP and U.S. GAAP, and how these differences might affect the financial information herein. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which transactions and events are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between Korean GAAP and U.S. GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate Korean GAAP and U.S. GAAP have significant ongoing projects that could affect future comparisons such as this one. Finally, no attempt has been made to identify all future differences between Korean GAAP and U.S. GAAP that may affect the Bank’s financial information as a result of transactions or events that may occur in the future.

Consolidation

Under Korean GAAP, financial statements are prepared on a non-consolidated basis and also on a consolidated basis for entities with subsidiaries or controlled companies. Certain large business groups are required by the Government to prepare combined financial statements. Under U.S. GAAP, the primary financial statements are prepared on a consolidated basis. In limited cases, non-consolidated financial information for the parent company only and combined financial statements may be presented as supplementary information.

Under Korean GAAP, when consolidated financial statements are presented, investments in subsidiaries and substantially controlled entities must be consolidated. Substantial control is deemed to exist when the investor is the largest shareholder owning more than 30% of the investee’s outstanding voting shares. Beginning in 2000, other “substantial control” criteria were added; for example, the ability to appoint more than 50% of the board of directors. Companies with prior year’s total assets of less than ₩7 billion or newly established companies with initial capital of less than ₩7 billion need not be consolidated. However, companies excluded from consolidation should be accounted for under the equity method if the change in their net equity is significant. Prior to 2000, subsidiaries whose activities were dissimilar from those of the parent were also excluded from the parent’s consolidated financial statements. Subsidiaries whose activities are dissimilar from those of the parent must now be included in the parent’s consolidated financial statements. U.S. GAAP generally requires consolidation of all majority-owned subsidiaries with certain exceptions related to control by

other than a majority interest or an inability to exercise operating control over the subsidiary. In January 2003, the Financial Accounting Standards Board (“**FASB**”) issued Interpretation No. 46 (“**FIN 46**”), “Consolidation of Variable Interest Entities — an interpretation of ARB No. 51,” which was replaced by a revision to FIN 46 (“**FIN 6R**”) in December 2003. FIN 46R has broadened the approach to consolidation and requires companies to make additional considerations when assessing consolidation requirements. See below for discussion of FIN 46R impacts.

In general, the consolidation methods or procedures under Korean GAAP are conceptually similar to U.S. GAAP, however, there may be differences in application.

Consolidation of Variable Interest Entities

Under Korean GAAP there are no comprehensive standards or criteria for the consolidation of special-purpose companies. Special-purpose companies established under the Korea Asset Securitization Act for the purpose of holding certain financial assets and which are limited to passive activities are normally not consolidated in Korean GAAP financial statements if they do not otherwise meet the consolidation criteria under Korean GAAP.

Under U.S. GAAP, such special-purpose companies are generally consolidated if the sponsoring company has a controlling financial interest in the entity or if there is not sufficient third party equity at risk. On 17th January, 2003, FASB issued Interpretation No. 46 — “Consolidation of Variable Interest Entities,” which was replaced by a revision to FIN 46 (“**FIN 46R**”) in December 2003 and which addresses consolidation by business enterprises where equity investors do not bear the residual economic risks and rewards. The principle behind the new Interpretation is that if a company absorbs a majority of expected losses and/or receives a majority of expected residual returns in an entity, which is defined in the Interpretation as a variable interest entity, the entity should be included in the consolidated financial statements. Therefore, under U.S. GAAP, it is more likely that Korean special-purpose companies with nominal capital investments would be included in the consolidated financial statements of the Bank.

Under Korean GAAP there are no comprehensive standards or criteria for the consolidation of variable interest entities. Such entities are normally not consolidated in Korean GAAP financial statements if they do not otherwise meet the consolidation criteria under Korean GAAP.

Business Combinations

Under Korean GAAP, business combinations involving other than commonly controlled entities are accounted for as either a purchase or a pooling of interests, depending on the specific circumstances. In a purchase combination, the difference between the purchase consideration and the fair value of the net assets acquired is accounted for as goodwill or as negative goodwill. Goodwill is amortized over its estimated economic life, not to exceed 20 years. Negative goodwill, which does not exceed the fair value of non-monetary assets acquired, is amortized over the weighted estimated average economic lives of non-monetary assets. Negative goodwill, which exceeds the fair value of non-monetary assets acquired, is credited to operations in the year of purchase. If shares are purchased after control of a subsidiary has been obtained, the difference between the acquisition cost and net assets acquired is credited or charged to capital surplus. Acquisitions are accounted for assuming such transactions occur as of the date of the audited or reviewed financial statements of the acquired company which are closest to the date of acquisition.

Effective 1st July, 2001, U.S. GAAP no longer permits pooling of interests and there are significant differences in the accounting for intangible assets including goodwill. (For more details relating to intangible assets, see “*Intangible Assets*”) Also, companies that must comply with the accounting requirements of the United States Securities and Exchange Commission are required to apply “push down” accounting for acquisitions in which substantially all of the outstanding common shares of the acquiree are acquired.

Securities

Under Korean GAAP, debt and equity securities bought and held for the purpose of selling them in the near term are classified as marketable securities and other securities are classified as investment securities.

Marketable securities and investment securities are initially carried at cost, using the weighted average or the moving average method. The following paragraphs describe the subsequent accounting for securities by the type of security.

Marketable securities are reported at fair value, and valuation gains or losses are reported in current operations.

Investments in equity securities with readily determinable fair values and investments in available-for-sale debt securities are reported at fair value with unrealized gains or losses reported as a capital adjustment in shareholders’ equity until realized. Declines in the fair value which are anticipated not to be recoverable are recorded as impairment losses in current operations after eliminating any previously recorded capital adjustment for temporary changes. Subsequent recoveries or other future changes in fair value are recorded as a capital adjustment in shareholders’ equity.

Investments in equity securities that do not have readily determinable fair values are reported at cost, except for declines in the Bank’s proportionate equity of the underlying book value of the investees which are anticipated not to be recoverable, which are recorded as impairment losses in current operations. Subsequent recoveries are also recorded in current operations up to the original cost of the investment.

Investments in debt securities which the Bank has the intent and ability to hold to maturity are carried at cost, adjusted for the amortization or accretion of premiums or discounts. Premiums and discounts on held-to-maturity debt securities are amortized or accreted over the life of the debt securities using the effective interest method. Declines in the fair value of debt securities which are anticipated not to be recoverable are recorded as impairment losses in current operations. Subsequent recoveries are also recorded in current operations up to the amortized cost of the investment.

If the Bank’s objectives change, a marketable security can be reclassified to investment securities, but only as of a balance sheet date. The difference between the fair value of the security as of the balance sheet date and the book value is recognized as gain or loss on valuation of marketable securities and credited or charged to current operations. Investment securities cannot be reclassified to marketable securities.

Starting from 2003, securities under Korean GAAP are classified into three categories, trading, available-for-sale and held-to-maturity similar to U.S. GAAP. In addition, all trading securities and available-for-sale and held-to-maturity securities which will mature or be disposed of within a year are reported as short-term investment securities. Other available-for-

sale and held-to-maturity securities are reported as long-term investment securities. Under revisions to Korean GAAP, available-for-sale equity securities, which do not have readily determinable fair value, are reported at estimated fair value unless the fair value cannot be reliably estimated, in which case they are stated at cost and a recovery gain from impairment is recorded, if certain conditions are met, up to the lesser of amortized cost of the held-to-maturity securities which would have been recorded if an impairment loss had not been recognized and the previously recorded impairment loss for available-for-sale securities.

Under U.S. GAAP, Statement of Financial Accounting Standards (“SFAS”) No. 115 “*Accounting for Certain Investments in Debt and Equity Securities*” requires investments in all debt securities and equity securities with readily determinable fair value to be classified into three categories and accounted for as follows: (1) Debt securities that a company has the positive intent and ability to hold to maturity are reported at amortized cost; (2) Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are reported at fair value with unrealized gains and losses included in earnings; and (3) Debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as “available-for-sale securities” and reported at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income, a component of equity. For individual securities classified as either held-to-maturity or available-for-sale, if a decline in fair value below the cost is judged to be other than temporary, the cost basis of the individual securities is written down to fair value and the amount of write-down is included in earnings. An impairment write-down creates a new cost basis which is not changed for subsequent recoveries of fair value.

Under U.S. GAAP, transfers of securities between categories may be done whenever circumstances change, however, transfers into or from the trading category are rare and the sale or transfer of a held-to-maturity security shall be considered to be inconsistent with its original classification, resulting in a taint of the Bank’s intent to hold other debt securities to maturity, with limited exceptions.

Equity Method for Investments in Affiliates

Under Korean GAAP, use of the equity method for more than 20% (15% for the banking institutions)-owned investments is required, except for companies with assets of less than ₩7 billion where the effect of its change in net assets on the investor’s financial statements is not material. The excess of the Bank’s investment account over the corresponding share of stockholders’ equity of an investee is amortized over a period not exceeding 20 years. Under Korean GAAP, an investor generally stops application of the equity method of accounting when the investment balance is reduced to zero due to negative equity of the investee. Unrealized profit or loss from the sales or disposal between the investor and the investee is eliminated to the extent of the investor’s corresponding share.

Under the revisions to Korean GAAP, SKAS No. 15 “The Equity Method of Accounting,” effective from the fiscal years beginning after December 31, 2004, the excess of the Bank’s investment account over the corresponding share of stockholders’ equity of an investee is amortized as goodwill or negative goodwill. Goodwill is amortized over its estimated economic life, not to exceed 20 years. Negative goodwill, which does not exceed the fair value of non-monetary assets acquired, is amortized over the weighted estimated average economic lives of non-monetary assets. Negative goodwill, which exceeds the fair value of non-monetary assets acquired, is credited to operations in the year of purchase. Even though the investment balance is reduced to zero due to negative equity of the investee, if the investor has preferred stock of, or long-term accounts receivable (including loans receivable but excluding trade

accounts receivable and collectibles receivable through pledged assets) from, the investee, additional loss is recognized in current operations. Unrealized profit or loss from the upstream or downstream transactions is eliminated to the extent of the investor's corresponding proportional interest in the investee. However, if the investee is a consolidated subsidiary, all of the unrealized profit or loss from the downstream transactions is eliminated since the net assets and net income in the non-consolidated financial statements of the investor should generally be equal to those in its consolidated financial statements.

Under U.S. GAAP, an investor applies the equity method of accounting to investments where the investor exercises significant influence over the investee, typically for investments where 20-50% of the equity is owned. The excess of the Bank's investment account over the corresponding share of stockholders' equity of an investee is not amortized under U.S. GAAP effective in 2002. When the investor has loans to and other securities of the investee or a commitment to fund ongoing operations of the investee, the investor is required to record losses in addition to its investment balance. Intercompany profits and losses are eliminated until realized by the investor as if an investee enterprise were consolidated, and accordingly, the elimination of the intercompany profit and losses is allocated proportionately between the investor and investee.

Other than the differences described above, in general, the equity method of accounting under Korean GAAP is conceptually similar to U.S. GAAP, however, there could be certain differences in application.

Derivative Instruments

Under Korean GAAP, all derivative instruments are recorded at fair value of rights and obligations arising from such derivative instruments as assets and liabilities, which are stated at fair value. The gains and losses that result from the change in the fair value of derivative instruments are reported in current earnings. Cash flow hedge accounting is applied to a derivative instrument designated as hedging the exposure to variability in expected future cash flow of an asset or a forecasted transaction that is attributable to a particular risk. The effective portion of gain or loss on a derivative instrument designated as a cash flow hedge is recorded as a capital adjustment and the ineffective portion is recorded in current operations. The effective portion of gain or loss recorded as a capital adjustment is reclassified to current earnings in the same period during which the hedged forecasted transaction affects earnings. If the hedged transaction results in the acquisition of an asset or the incurrence of a liability, the gain or loss in capital adjustment is added to or deducted from the asset or the liability.

Under SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 149 and SFAS No. 155, the Bank is required to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through current operations. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of the derivative will either be offset against the changes in fair value of the hedged assets, liabilities or firm commitments through earnings, or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of the derivative's changes in fair value will be immediately recognized in current earnings. Under U.S. GAAP, there are strict requirements to apply hedge accounting and there are detailed rules and case studies for derivative accounting.

In general, the accounting for derivatives under Korean GAAP is conceptually similar to U.S. GAAP, however, there could be certain significant differences in application.

Accounting for Transfers of Assets

Under Korean GAAP, transfers of assets, which are conducted in accordance with the Korean Asset Securitization Act, are recorded as sales. Gains or losses on sales are determined as the difference between the carrying amount of the assets sold and the net proceeds received, and recognition should be given to the potential cost of the recourse obligation.

Under U.S. GAAP, such transactions result in recording transferred assets as sold only if the transferor has surrendered control over the transferred assets and all the following are met:

- transferred assets have been isolated from the transferor presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership,
- each transferee (or, if the transferee is a qualifying special-purpose entity, each holder of its beneficial interests) has the right to pledge or exchange the assets (or beneficial interests) it received, and no condition both constrains the transferee (or holder) from taking advantage of its right to pledge or exchange and provides more than a trivial benefit to the transferor, and
- the transferor does not maintain effective control over the transferred assets through either (1) an agreement that both entitles and obligates the transferor to repurchase or redeem them before their maturity or (2) the ability to unilaterally cause the holder to return specific assets, other than through a cleanup call.

In addition, there are additional strict requirements that often result in the consolidation of the financial statements of the transferee special-purpose vehicle. Upon completion of a transfer of assets that satisfies the conditions to be accounted for as a sale, the transferor is required to recognize all assets obtained and liabilities incurred in the transaction, including assets or liabilities related to servicing.

Loans and Receivables

Under Korean GAAP, an allowance for bad debts is provided for estimated uncollectible accounts on a reasonable and objective basis, however, financial institutions frequently provide an allowance for bad debts in accordance with the minimum ratios set by Korean regulatory agencies, based on the classification of the relevant assets. Under Korean GAAP, when the interest rate and repayment period are changed unfavorably for the creditor by a court imposition such as commencement of reorganization or by mutual agreement and the difference between the nominal value and the present value is material, the difference is presented as bad debt expense. U.S. GAAP requires that impaired loans, including restructured loans, be measured based on comparison of the recorded loan balance to the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent.

Property, Plant and Equipment

Under Korean GAAP, property, plant and equipment are stated at cost, except for those assets that are stated at their appraised values in accordance with the Asset Revaluation Law of Korea. In connection with the revaluation, a new basis for depreciation is established. The revaluation increment, net of a 3% asset revaluation tax, is first applied to offset any

accumulated deficit and the remainder is credited to capital surplus. Asset revaluation is not permitted after 1st January, 2001. Impairment of long-lived assets are required to be charged to expense when incurred similar to U.S. GAAP as described below, except that if the recoverable value of the asset exceeds the adjusted book value of the asset in subsequent years, the recovery of previously recognized losses is recognized as a gain in subsequent periods until the recoverable value equals the book value of the assets which would have been recorded if the loss were not recognized (*i.e.*, after recognition of foregone depreciation).

U.S. GAAP does not permit asset revaluation, unless the recorded amount of an asset is not recoverable, in which case a loss is recognized. U.S. GAAP requires entities to perform separate calculations for long-lived assets to be held and used in order to determine whether recognition of an impairment loss is required and, if so, to measure the impairment. For assets held for use, impairment exists if the sum of expected future cash flows (undiscounted and without interest charges) expected to result from use and eventual disposition is less than the asset's carrying value. Measurement of impairment is based on the fair value of the asset. An impairment loss creates a new book basis and subsequent recoveries of the fair value are not recognized. U.S. GAAP also requires long-lived assets and certain identifiable intangibles to be disposed of by sale to be reported at the lower of the carrying value or fair value less selling expense.

Under Korean GAAP, companies were not required to record a liability related to the future retirement of property, plant and equipment. Beginning in 2003, when the estimated cost of dismantling and removing an asset and restoring the site, after the termination of the asset's useful life, meets the criteria for recognition of provisions, the present value of the estimated expenditure shall be included in the acquisition cost of the tangible asset. At the time of acquisition, the present value of the estimated expenditure is accounted for asset and liability, respectively. Such acquisition cost of asset is depreciated over its estimated useful lives and the difference between the present value and notional amounts of liability is amortized using the effective interest rate method over the period from the acquisition to termination of the assets. If such liability is newly imposed due to a change in law or contract, such cost is to be added to the acquisition cost of the tangible asset when the related liability is recorded. However, if such cost is incurred over the useful lives of the assets, it shall be charged to the current operations of the period in which it is incurred. Under U.S. GAAP, beginning in 2003, SFAS No. 143 — "Accounting for Asset Retirement Obligations" provides accounting and reporting standards for recognizing the cost associated with legal obligations related to the retirement of tangible long-lived assets. The fair value of asset retirement obligations is to be recognized in the period in which they are incurred if a reasonable estimate of fair value can be made. The corresponding amount is capitalized as part of the carrying amount of the long-lived asset and expensed over the asset's useful life.

Provisions, Contingent Liabilities and Contingent Assets

Under Korean GAAP, a company records a liability provision for expenses matched with the related income in the current period if the expense is certain and if the amount of the expense is reasonable. If a decrease in net assets is certain and the loss can be reasonably estimated, a contingent loss is recognized in current operations. However, a contingency gain is not recognized in current operations until the contingent conditions are resolved.

Under the revisions to Korean GAAP (which is similar to U.S. GAAP), SKAS No. 17 "Provisions, Contingent Liabilities and Contingent Assets," effective from fiscal year beginning after December 31, 2004, a company recognizes a provision if, and only if:

- a present obligation (legal or constructive) has arisen as a result of a past event (the obligating event);
- payment is probable, or more likely than not; and
- the amount can be estimated reliably.

Also, the provisions are stated at present value, if the difference between nominal and present value is material.

Intangible Assets

Under Korean GAAP, intangible assets, including goodwill, are amortized over a reasonable period not to exceed 20 years unless the contractual right or legal right exceeds 20 years. Under U.S. GAAP, intangible assets are amortized over the useful life unless that life is indefinite. Intangible assets with indefinite useful life and goodwill are not amortized, however, they are tested for impairment at minimum on an annual basis.

Under Korean GAAP, bond issuance costs are offset against the proceeds of the bond and amortized using the effective interest method over the life of the debt instrument and stock issuance costs are recorded as a reduction of paid-in capital. Under U.S. GAAP, bond issuance costs are reflected as deferred charges in other assets and otherwise accounted for as under Korean GAAP and stock issuance costs are treated as a reduction of the proceeds.

Under Korean GAAP, certain development costs are capitalized only if the costs can be clearly identified and the future economic benefits are probable, and are amortized over the estimated useful lives (not to exceed 20 years) from the year the relevant asset is placed in use. Ordinary research and development costs are expensed as incurred. Organization costs related to establishing a new company can be capitalized. Starting in 2003, such organization costs are expensed as incurred. Under U.S. GAAP, all research and development costs and organization costs are expensed as incurred.

Accounting for Income Taxes

Under Korean GAAP, the income tax provision includes current and deferred income taxes which are provided based on temporary differences between the book and tax bases of assets or liabilities at future expected tax rates and net operating loss carryforwards and tax credit carryforwards. Deferred taxes are not recognized for temporary differences related to unrealized gains and losses on investment securities that are reported in a separate component of stockholders' equity. Deferred tax assets are adjusted based on the likelihood of realizability. Accounting for income taxes under Korean GAAP is similar to that required under U.S. GAAP, however, U.S. GAAP requires that a valuation allowance be recorded if it is "more likely than not" that such deferred tax assets will not be realized and deferred taxes are recognized for unrealized gains and losses on available-for-sale investment securities and based on currently enacted tax rates.

Under Korean GAAP, deferred tax assets and liabilities are presented in the balance sheet as a single, net non-current number. Under U.S. GAAP, deferred tax assets and liabilities are separated into their current and non-current portions based on the classification of the related asset or liability for financial reporting purposes.

Under the revisions to Korean GAAP, SKAS No. 16 “Accounting for Income Taxes,” effective for fiscal years beginning after December 31, 2004, deferred taxes are recognized for temporary differences related to unrealized gains and losses on available-for-sale equity securities that are reported in a separate component of stockholders’ equity (which is similar to U.S. GAAP). Also, deferred tax assets and liabilities are separated into their current and non-current portions based on the classification of the related asset or liability for financial reporting purposes.

Financing Costs

Under previous Korean GAAP effective until 2002, financing costs (including interest and foreign exchange gains/losses) incurred on borrowings to finance the purchase of investment securities, intangible assets, construction of property, plant and equipment and manufacture of inventories on a long-term basis are required to be capitalized. Starting from 2003, such financing costs may be either reflected in current operations or capitalized, however, an accounting method once adopted should be consistently applied and there are certain restrictions for the capitalisable foreign exchange gains/losses.

Under U.S. GAAP, only interest expense is to qualify for capitalisation and no foreign currency translation gain or loss on monetary asset and liabilities qualifies for capitalisation. In addition, qualifying assets for interest capitalisation are more limited than those under Korean GAAP.

Accounting and Disclosure Requirements for Guarantees

Under Korean GAAP, a guarantor accounts for guarantees issued in accordance with loss contingencies. Also, Korean GAAP does not require extensive disclosures of guarantees.

Under U.S. GAAP, beginning for guarantees issued or modified after December 31, 2002, a guarantor is required to recognize, at the inception of certain guarantees, a liability for the fair value of the obligation undertaken in issuing the guarantee in accordance with FASB Interpretation No. 45. In addition, there is a disclosure requirement, including the maximum potential amount of future payments the guarantor could be required to make and the carrying value of the liability.

Appropriations of Retained Earnings

Under Korean GAAP, proposed appropriations of retained earnings at year-end, including dividends payable, are required to be reflected in the current year’s balance sheet, although the actual appropriations are approved by stockholders at their regular meeting to be held annually in the following year. Under U.S. GAAP, dividends are recorded as a liability as of the date of declaration by the board of directors. Starting from 2003, the revisions to Korean GAAP require that proposed appropriations of retained earnings at year-end be recorded when approved by stockholders.

Retirement and Severance Benefits

Under the Korean labor law, employees with more than one year of service are entitled to receive a lump sum payment upon voluntary or involuntary termination of their employment. The amount of the benefit is based on the terminated employee’s length of employment and rate of pay prior to termination. Korean GAAP requires that a company record the vested benefit obligation at the balance sheet date assuming all employees were to terminate their employment

as of that date. The change in the vested benefit obligation during the year is recorded as the current year's severance expense.

U.S. GAAP requires employee benefits to be recorded in accordance with Statements of Financial Accounting Standards No. 87, "Employers' Accounting for Pensions," No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," No. 112, "Employers' Accounting for Postemployment Benefits" and No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." U.S. GAAP generally requires the use of actuarial methods for measuring annual employee benefit costs including the use of assumptions as to the rate of salary progression and discount rate, the amortization of prior service costs over the remaining service period of active employees and the immediate recognition of a liability when the accumulated benefit obligation exceeds the fair value of plan assets. U.S. GAAP also requires employers to recognize the obligation to provide postemployment benefits if the obligation is attributable to employees' services already rendered, employees' rights to those benefits accumulate or vest, payment of the benefits is probable, and the amount of the benefits can be reasonably estimated. Also, U.S. GAAP requires certain additional disclosures not required under Korean GAAP.

Under U.S. GAAP, for employee benefit plans with characteristics similar to Korean plans, if the vested benefit obligation is greater than the present value of the projected benefit obligation, a company may record a pension liability equal to the vested benefit obligation at the balance sheet date. Under these circumstances, the periodic pension expense is equal to the change in the vested benefit obligation during the year and there is no significant difference between Korean GAAP and U.S. GAAP.

Revenue Recognition

Under previous Korean GAAP, product revenues are recognized when goods are sold and delivered and service revenues are recognized on the percentage completion method. Under the revisions to Korean GAAP, starting from 2003, sales of goods are recognized as revenue when all of the following conditions have been met:

- significant risks and rewards of ownership of the goods have been transferred to the buyer;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained;
- the amount of revenue, transaction costs and other related costs occurred or to occur can be measured reliably; and
- it is probable that the economic benefits associated with the transaction will flow into the company.

Revenue arising from the use of the company's assets by others that generates interest, royalties and dividends is recognized when the amount of revenue can be measured reliably and it is probable that the economic benefits associated with the transaction will flow into the company. Also, service revenues are recognized on the percentage completion method.

Under U.S. GAAP, revenue should be recognized when the earnings process is completed or virtually completed and the revenue is realized or realizable. The following criteria are the generally criteria required for product sales revenue recognition:

- pervasive evidence that an arrangement exists;
- delivery has occurred or services have been rendered;
- the seller's price to the buyer is fixed or determinable; and
- collectibility is reasonably assured.

There may be differences in application of revenue recognition between Korean GAAP and U.S. GAAP in areas where the two GAAPs are conceptually similar.

Changes in Accounting Policy

Under Korean GAAP, the cumulative effect of certain accounting changes was charged or credited to beginning retained earnings and certain pro forma financial information was required to be disclosed. If information was not available to determine the impact on beginning retained earnings, the change could have been accounted for prospectively. For fiscal years beginning after 31st March, 2001, prior year financial statements are restated and the cumulative effect from retroactive application is adjusted through the opening balance of retained earnings in the earliest year presented. U.S. GAAP requires the recognition of the cumulative effect on prior years of most accounting changes in the year of the change or, in certain limited cases, retroactive restatement.

Prior Period Adjustments

Under Korean GAAP, prior period adjustments were reflected by restating the comparative information, although in practice, such adjustments were sometimes reflected as a charge to beginning retained earnings. Effective for calendar year 2002, with early adoption in 2001 allowed, all adjustments, except for fundamental errors, are reflected as non-operating income or expense in the current year's financial statements. Fundamental errors will be accounted for by restating the comparative information.

Under U.S. GAAP prior period adjustments are generally limited to material errors in prior period financial statements and are reflected as a restatement of those financial statements.

Comprehensive Income

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S. GAAP, comprehensive income includes all changes in shareholders' equity during an accounting period except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations.

Statement of Cash Flows

Under Korean GAAP, cash flows from restricted deposits, key money deposits and intangible assets are reported as investing activities. Under U.S. GAAP, cash flows from cash flows from restricted deposits and key money deposits are reported as operating activities and cash flows from intangible assets are reported as operating or investing activities depending on their nature.

Additional Disclosures

Compared with Korean GAAP, U.S. GAAP requires additional footnote disclosure for income taxes, employee benefit plans, fair value of financial instruments, pro forma financial information and segments.

Additional Differences

U.S. GAAP provides for special industry practices for several industries which may differ from Korean GAAP. Examples of these industries are oil and gas producers, insurance, financial services, broadcasting, cable television, franchising, real estate, regulated operations and construction contractors. Also, companies registering securities in the United States must prepare financial statements in compliance with the accounting requirements of the United States Securities and Exchange Commission.

The Bank's management believes that the application of U.S. GAAP to the Bank's financial statements would have a material and significant impact upon the financial results and disclosure as reported under Korean GAAP. Potential investors should consult their own professional advisors for an understanding of the differences between Korean GAAP and U.S. GAAP and how those differences might affect the financial information included herein.

Korean Accounting and Disclosures Related to Banking Institutions

Banks in Korea are subject to accounting standards and disclosure requirements that differ in significant respects from those applicable to banks in other countries, including the United States. In particular, the Bank's financial statements are prepared in accordance with Korean GAAP and, where applicable, accounting and reporting guidelines prescribed by Korean bank regulatory authorities, which differ in certain material respects from U.S. GAAP as applied to banks. Below is a description of the significant differences between Korean GAAP and U.S. GAAP relating to banking institutions. In addition, there may be less publicly available information about Korean banks, than is regularly made available by financial institutions in other countries.

Allowance for Possible Loan Losses

Under previous Korean GAAP, the allowance for possible loan losses was generally determined based on regulations issued by Korean banking regulatory authorities. The Korean banking regulations with respect to loan classification and provisioning were, in certain material respects, less stringent than those applicable to banks in the United States. At the end of 1999, the FSC has changed its regulations concerning the method of classifying loans and provisioning for loan losses so as to fully reflect a borrower's capacity to repay and not just solely past performance. The Bank measures allowances for possible loan losses by the discounted cash flow method and loan loss experience ratio on a single loan and certain group of loans, and the percentage of loan loss allowance established by the FSC.

Under U.S. GAAP, the allowance for possible loan losses is determined by management utilizing judgment, historical experience, and an analysis of the specific terms and conditions of individual loans and guarantees. Under U.S. GAAP, the allowance for possible loan losses is required to be established at a level that is deemed adequate to provide for all known and inherent losses that existed at the balance sheet date. Loans are written off when they are deemed improbable of collection. Pursuant to SFAS No. 114, as amended, a loan is deemed impaired when it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan. An impaired loan should be valued at the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical

alternative, at the loan's observable market value or the fair value of the loan's collateral if the loan is collateral dependent.

The method to provide allowances for loan losses under Korean GAAP is conceptually similar to one in U.S. GAAP, however, there may be differences in application. In addition, regulatory approval is required for Korean banking institutions to charge off loans, which generally allows loans to be written off in a later period than banking institutions in the United States.

Loan Fees and Origination Costs

Under previous Korean GAAP, all costs incurred in the origination of loans were charged to expense as incurred. Loan commitment, origination and other fees were recognized in income when received.

Under U.S. GAAP, loan origination fees are deferred and recognized over the life of the loan as additional interest income. Direct loan origination costs are deferred and recognized over the life of the loan as a reduction of interest income. Loan commitment fees are deferred and, if the commitment is exercised, recognized over the life of the loan as additional interest. If the loan commitment expires unexercised, the commitment fee is recognized in income.

Starting from 2003, the accounting treatment for loan origination fees and costs under Korean GAAP became similar to those under U.S. GAAP.

Recognition of Interest Income

Korean GAAP requires recognition of interest income on an accrual basis, except for non-secured uncollectible receivables. Interest on loans, whose principal or interest is past due at the balance sheet date, is generally not accrued, with the exception of interest on certain loans secured by guarantee of governments, government agencies and collateral of bank deposits. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status.

Under U.S. GAAP, interest is generally accounted for on an accrual basis. Loans are generally placed on non-accrual status when they are 90 days past due. Previously accrued interest is generally reversed to income when a loan is placed on non-accrual status, unless both principal and interest are ultimately protected by sound collateral values and are in the process of collection. If the ultimate collectibility of a principal is in doubt, any payment received on a loan on which accrual of interest has been suspended is accounted for as a reduction of the principal balance to the extent necessary to eliminate such doubt.