WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 27, 2007
Table of Contents

As filed with the Securities and Exchange Commission on June 27, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

For the transition period from to

Commission file number 001-31811

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

203 Hoehyon-dong, 1-ga, Chung-gu, Seoul 100-792, Korea

(Address of principal executive offices)

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

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

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

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.

806,012,782 shares of Common Stock, par value (Won)5,000 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. ¨ Yes x No

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer ¨ Accelerated Filer ¨ Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. ¨ Yes ¨ No

TABLE OF CONTENTS

Table of Contents

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless indicated otherwise, the financial information in this annual report as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 has been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

On October 26 and December 24, 2004, we acquired an aggregate 27.3% voting interest in LG Investment & Securities, or LGIS. As a result of the acquisition, LGIS became an equity method investee as of December 24, 2004. On March 31, 2005, we merged Woori Securities, our wholly-owned subsidiary, into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee.

In this annual report:

- references to we, us or Woori Finance Holdings are to Woori Finance Holdings Co., Ltd. and, unless the context otherwise requires, its subsidiaries;
- references to Korea 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, $ or US$ are to United States dollars.

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

For your convenience, this annual report 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 29, 2006, which was (Won)930.0 = US$1.00.

Table of Contents

FORWARD-LOOKING STATEMENTS

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

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, positioned, predict, project, risk, seek to, shall, should, will likely result, will pursue, plan and words and terms of similar sub connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 4B. Business Overview regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

In addition to the risks related to our business discussed under Item 3D. Risk Factors, other factors could cause actual results to differ materially from those described in the forward-looking statements. These factors include, but are not limited to:

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowance for credit and investment losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- our exposure to market risks; and
- adverse market and regulatory conditions.

By their nature, certain disclosures relating to these and other risks are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains, losses or impact on our income or results of operations could materially differ from those that have been estimated. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

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

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- unanticipated volatility in interest rates;

Table of Contents

- foreign exchange rates;
- prices and yields of equity and debt securities;
- 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 environment in Korea; and
- regional or general changes in asset valuations.

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

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

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*

Unless otherwise indicated, the selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Deloitte Anjin LLC, an independent registered public accounting firm.

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

Table of Contents

Consolidated Income Statement Data

	Year ended December 31,					
	2002	2003	2004 [(1)]	2005 [(1)]	2006	2006 [(2)]
	(in billions of Won except per share data)					(in millions of US$ except per share data)
Interest and dividend income	(Won) 6,950	(Won) 7,520	(Won) 7,235	(Won) 7,209	(Won) 9,365	US$ 10,070
Interest expense	3,991	4,117	3,809	3,727	5,465	5,877
Net interest income	2,959	3,403	3,426	3,482	3,900	4,193
Provision for loan losses	1,247	2,313	652	308	509	547
Provision for credit-related commitments (reversal of provision) [(3)]	106	201	43	(39)	107	115
Other provision (reversal of provision) [(4)]	146	102	(6)	17	36	39
Non-interest income	1,784	1,435	1,953	1,916	2,424	2,606
Non-interest expense	2,579	2,636	2,809	2,933	3,098	3,331
Income tax expense (benefit)	363	254	(392)	366	620	667
Minority interest	6	4	1	7	3	3
Income (loss) from continuing operations	296	(672)	2,272	1,806	1,951	2,097
Income (loss) from discontinued operations [(5)]	718					
Extraordinary gain			63			
Net income (loss)	1,014	(672)	2,335	1,806	1,951	2,097
Other comprehensive income (loss), net of tax	(182)	97	107	106	477	542
Comprehensive income (loss)	(Won) 832	(Won) (575)	(Won) 2,442	(Won) 1,912	(Won) 2,428	US$ 2,639
Per common share data:						
Net income (loss) per share basic	(Won) 1,353	(Won) (871)	(Won) 3,001	(Won) 2,245	(Won) 2,420	US$ 2.60
Income (loss) per share from continuing operations basic	395	(871)	2,920	2,245	2,420	2.60
Income (loss) per share from discontinued operations basic	958					
Extraordinary item basic			81			
Weighted average common shares outstanding basic (in thousands)	749,383	771,724	778,167	804,389	806,013	806,013
Net income (loss) per share diluted [(6)]	(Won) 1,349	(Won) (871)	(Won) 2,926	(Won) 2,241	(Won) 2,420	US$ 2.60
Income (loss) per share from continuing operations diluted	394	(871)	2,848	2,241	2,420	2.60
Income (loss) per share from discontinued operations diluted	955					
Extraordinary item diluted			78			
Weighted average common shares outstanding diluted (in thousands)	751,785	771,724	799,233	805,866	806,013	806,013
Cash dividends paid per share [(7)]	(Won) 250	(Won) 100	(Won) 150	(Won) 400	(Won) 600	US$ 0.65

(1) On October 26 and December 24, 2004, we acquired an aggregate 27.3% voting interests in LGIS. As a result of the acquisition, LGIS became an equity method investee as of December 24, 2004. On March 31, 2005, we merged Woori Securities, our wholly-owned subsidiary, into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. Accordingly, income statement data for 2004 do not reflect the full-year results of operations of LGIS for 2004, while income statement data for 2005 reflect the three-month results of operations of Woori Securities (prior to its merger with LGIS), as a consolidated subsidiary, and the three-month results of operations of LGIS (prior to the merger) and the nine-month results of operations of Woori Investment & Securities (following the merger), each as an equity method investee.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(3) The reversal of provisions in 2005 resulted from subsequent changes in our estimation of losses related to our credit-related commitments. We determined in 2005 that a portion of our allowances for losses on credit-related commitments were no longer needed, and accordingly reversed the related portions of the provisions we had initially allocated during the year.

(4) Mainly consists of provisions relating to (a) repurchase obligations with respect to loans sold to the Korea Asset Management Corporation and (b) trade receivables. The reversal of provision in 2004 resulted from subsequent changes in our estimation of losses related to loans sold to the Korea Asset Management Corporation.

(5) Discontinued operations consisted of Hanvit Leasing and its three subsidiaries, which were sold in June and December 2002, and a subsidiary of Woori Investment Bank, which we entered into an agreement to sell in December 2002.

4

Table of Contents

(6) In the diluted earnings per share calculation, our convertible bonds and warrants outstanding in 2002 and our convertible bonds outstanding in 2004 and 2005 are assumed to have been converted into shares of our common stock, while options outstanding to purchase our common stock in 2002, 2003, 2004, 2005 and 2006 are not deemed to have been exercised. We had no convertible bonds outstanding in 2006. See Note 32 of the notes to our consolidated financial statements.

(7) Amounts shown for each year are cash dividends per share relating to such year, which were declared and paid in the following year. 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 those periods are the same. With respect to the 2002 fiscal year, we paid dividends in 2003 of (Won)250 per common share ($0.21 per common share at the noon buying rate in effect on December 31, 2002) to our stockholders other than the Korea Deposit Insurance Corporation, or the KDIC. With respect to the 2003 fiscal year, we paid dividends in 2004 of (Won)100 per common share ($0.08 per common share at the noon buying rate in effect on December 31, 2003) to our stockholders, including the KDIC. With respect to the 2004 fiscal year, we paid dividends in 2005 of (Won)150 per common share ($0.14 per common share at the noon buying rate in effect on December 31, 2004) to our stockholders, including the KDIC. With respect to the 2005 fiscal year, we paid dividends in 2006 of (Won)400 per common share ($0.40 per common share at the noon buying rate in effect on December 30, 2005) to our stockholders, including the KDIC. With respect to the 2006 fiscal year, we paid dividends in 2007 of (Won)600 per common share ($0.65 per common share at the noon buying rate in effect on December 29, 2006) to our stockholders, including the KDIC. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated Balance Sheet Data

	As of December 31,					
	2002	2003	2004	2005	2006	2006 [1]
			(in billions of Won)			(in millions of US$)
Assets						
Cash and cash equivalents [2]	(Won) 5,149	(Won) 5,399	(Won) 4,315	(Won) 8,280	(Won) 7,935	US$ 8,532
Restricted cash [2]	779	373	388	376	243	262
Interest-earning deposits in other banks	1,826	1,640	990	1,553	1,582	1,701
Call loans and securities purchased under resale agreements	629	1,127	1,499	1,426	940	1,011
Trading assets	3,790	4,291	6,989	4,889	7,576	8,146
Available-for-sale securities	10,846	12,408	12,302	18,288	28,174	30,295
Held-to-maturity securities (fair value of (Won)11,799 billion in 2001, (Won)10,448 billion in 2002, (Won)10,143 billion in 2003, (Won)8,763 billion in 2004, (Won)9,613 billion in 2005 and (Won)8,595 billion ($9,242 million) in 2006)	9,959	9,801	8,406	9,638	8,614	9,262
Other investment assets [3]	731	793	1,138	1,397	1,568	1,686
Loans (net of allowance for loan losses of (Won)3,770 billion in 2002, (Won)2,834 billion in 2003, (Won)1,806 billion in 2004, (Won)1,525 billion in 2005 and (Won)1,855 billion ($1,995 million) in 2006)	76,485	85,587	88,705	102,630	131,928	141,858
Due from customers on acceptances	461	421	338	355	267	287
Premises and equipment, net	2,249	2,151	2,110	2,060	2,149	2,311
Accrued interest and dividends receivable	672	747	558	703	865	930
Assets held for sale	240		26	49	81	87
Goodwill		25	22	48	38	41
Other assets [4]	3,227	2,850	3,128	3,223	3,121	3,356
Total assets	(Won) 117,043	(Won) 127,613	(Won) 130,914	(Won) 154,915	(Won) 195,081	US$ 209,765
Liabilities						
Deposits						
Interest-bearing	(Won) 75,190	(Won) 85,482	(Won) 86,339	(Won) 99,609	(Won) 121,688	US$ 130,847

Non-interest-bearing	3,408	3,521	3,714	4,538	4,851	5,217
Total deposits	78,598	89,003	90,053	104,147	126,539	136,064
Call money	804	412	689	326	2,270	2,441
Trading liabilities	322	473	1,628	1,339	1,701	1,829
Acceptances outstanding	461	421	338	355	267	287
Other borrowed funds	11,326	9,345	9,115	9,909	12,025	12,930
Secured borrowings	4,756	4,321	2,352	2,557	2,629	2,827
Long-term debt	11,305	14,917	15,662	21,850	32,298	34,729
Accrued interest payable	1,528	1,618	1,713	1,721	2,340	2,516
Liabilities held for sale	152					
Other liabilities [5]	3,555	3,218	2,862	4,379	4,531	4,871
Total liabilities	112,807	123,728	124,412	146,583	184,600	198,494
Minority interest	279	229	38	11	55	60
Total stockholders equity	3,957	3,656	6,464	8,321	10,426	11,211
Total liabilities, minority interest and stockholders equity	(Won) 117,043	(Won) 127,613	(Won) 130,914	(Won) 154,915	(Won) 195,081	US$ 209,765

5

Table of Contents

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)930.0 to US$1.00, the noon buying rate in effect on December 29, 2006 as quoted by the Federal Reserve Bank of New York in the United States.

(2) In 2005, we changed our accounting policy with respect to the composition of cash and cash equivalents to include reserve deposits with the Bank of Korea and certain foreign banks. Such balances were previously classified as restricted cash. Amounts for prior periods have been reclassified accordingly. See Item 5B. Liquidity and Capital Resources Financial Condition Assets and Note 1 of the notes to our consolidated financial statements.

(3) For a description of other investment assets, see Note 10 of the notes to our consolidated financial statements.

(4) For a description of other assets, see Note 16 of the notes of our consolidated financial statements.

(5) For a description of other liabilities, see Note 21 of the notes to our consolidated financial statements.

Profitability Ratios and Other Data

	Year ended December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won except percentages)				
Return on average assets [(1)]	0.95%	(0.56)%	1.81%	1.28%	1.13%
Return on average equity [(2)]	21.21	(17.17)	50.69	24.45	18.70
Net interest spread [(3)]	2.93	2.88	2.68	2.59	2.37
Net interest margin [(4)]	3.07	3.01	2.84	2.73	2.50
Cost-to-income ratio [(5)]	54.37	54.49	52.22	54.33	48.99
Average stockholders equity as a percentage of average total assets	4.47	3.25	3.56	5.25	6.06
Total revenue [(6)]	(Won) 8,734	(Won) 8,955	(Won) 9,188	(Won) 9,125	(Won) 11,789
Operating expense [(7)]	6,570	6,753	6,618	6,660	8,563
Operating margin [(8)]	2,164	2,202	2,570	2,465	3,226
Operating margin as a percentage of total revenue	24.78%	24.59%	27.97%	27.01%	27.36%

(1) Represents net income (loss) as a percentage of average total assets. Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori CA Asset Management (which was renamed Woori SB Asset Management in February 2006), Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

(2) Represents net income (loss) as a percentage of average stockholders equity. Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori CA Asset Management (which was renamed Woori SB Asset Management in February 2006), Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

(3) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(4) Represents the ratio of net interest income to average interest-earning assets.

(5) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.

(6) Total revenue represents interest and dividend income plus non-interest income.

The following table shows how total revenue is calculated:

Year ended December 31,				
2002	2003	2004	2005	2006
(in billions of Won)				

Interest and dividend income	(Won) 6,950	(Won) 7,520	(Won) 7,235	(Won) 7,209	(Won) 9,365
Non-interest income	1,784	1,435	1,953	1,916	2,424
Total revenue	(Won) 8,734	(Won) 8,955	(Won) 9,188	(Won) 9,125	(Won) 11,789

(7) Operating expense represents interest expense plus non-interest expense, excluding provisions of (Won)1,499 billion, (Won)2,616 billion, (Won)689 billion, (Won)286 billion and (Won)652 billion for 2002, 2003, 2004, 2005 and 2006, respectively.

Table of Contents

The following table shows how operating expense is calculated:

	Year ended December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won)				
Interest expense	(Won) 3,991	(Won) 4,117	(Won) 3,809	(Won) 3,727	(Won) 5,465
Non-interest expense	2,579	2,636	2,809	2,933	3,098
Operating expense	(Won) 6,570	(Won) 6,753	(Won) 6,618	(Won) 6,660	(Won) 8,563

(8) Operating margin represents total revenue less operating expenses.

Asset Quality Data

	As of December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won)				
Total loans	(Won) 80,226	(Won) 88,392	(Won) 90,489	(Won) 104,130	(Won) 133,740
Total non-performing loans [1]	3,576	2,594	2,071	1,369	1,354
Other impaired loans not included in non-performing loans	3,143	1,861	1,129	820	391
Total non-performing loans and other impaired loans	6,719	4,455	3,200	2,189	1,745
Total allowance for loan losses	3,770	2,834	1,806	1,525	1,855
Non-performing loans as a percentage of total loans	4.46%	2.93%	2.29%	1.31%	1.01%
Non-performing loans as a percentage of total assets	3.05	2.03	1.58	0.88	0.69
Total non-performing loans and other impaired loans as a percentage of total loans	8.37	5.04	3.54	2.10	1.30
Allowance for loan losses as a percentage of total loans	4.70	3.21	2.00	1.46	1.39

(1) Non-performing loans are defined as those loans that are classified as substandard or below based on the Financial Supervisory Commission s asset classification criteria. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Classifications.

Table of Contents

Segment Information Under Korean GAAP

The following table sets forth financial data under Korean GAAP as of or for the year ended December 31, 2006 for our business segments:

	Woori Bank	Kyongnam Bank	Kwangju Bank	Credit card operations	Securities brokerage services (1)	Other	Elimination (2)	Total
	(in billions of Won)							
Interest and dividend income	(Won) 7,524	(Won) 821	(Won) 704	(Won) 560	(Won) 354	(Won) 55	(Won) (20)	(Won) 9,998
Interest expense	4,433	427	392	48	195	122	(34)	5,583
Net interest income (loss)	3,091	394	312	512	159	(67)	14	4,415
Provision for loan losses and credit-related commitments (reversal of provision)	595	37	49	85	(7)	(1)	37	795
Non-interest income	6,975	164	89	21	2,414	2,614	(2,134)	10,143
Non-interest expenses	7,378	306	221	225	2,227	501	(279)	10,579
Net non-interest income (loss)	(403)	(142)	(132)	(204)	187	2,113	(1,855)	(436)
Depreciation and amortization	158	8	7	0	23	75	(1)	270
Net income (loss) before tax	1,935	207	124	223	330	1,972	(1,877)	2,914
Income tax expense (benefit)	454	52	33	61	97	18	10	725
Minority interest	1	0	0	0	0	1	158	160
Net income (loss) for the period under Korean GAAP	1,480	155	91	162	233	1,953	(2,045)	2,029
U.S. GAAP adjustments	54	5	10	3	2	24	(176)	(78)

Consolidated net income	(Won) 1,534	(Won) 160	(Won) 101	(Won) 165	(Won) 235	(Won) 1,977	(Won) (2,221)	(Won) 1,951
Segments total assets under Korean GAAP	(Won) 165,136	(Won) 16,653	(Won) 13,939	(Won) 3,641	(Won) 12,665	(Won) 14,430	(Won) (14,467)	(Won) 211,997
U.S. GAAP adjustments	(4,682)	(249)	(6)	1	(11,968)	181	(193)	(16,916)
Segments total assets	(Won) 160,454	(Won) 16,404	(Won) 13,933	(Won) 3,642	(Won) 697	(Won) 14,611	(Won) 14,660	(Won) 195,081

(1) Includes the operations of Woori Investment & Securities, which is not a consolidated subsidiary under U.S. GAAP. We acquired a 27.3% voting interest in LGIS in October and December 2004. As a result of this acquisition, LGIS became a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP) effective December 24, 2004. On March 31, 2005, we merged Woori Securities, a wholly-owned subsidiary, into LGIS and renamed the surviving entity Woori Investment & Securities, which remained a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP).

(2) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under the management reporting system.

Table of Contents

Selected Financial Information

Average Balance Sheets and Related Interest

The following tables show our average balances and interest rates for 2004, 2005 and 2006:

	Year ended December 31,								
	2004			2005			2006		
	Average Balance (1)	Interest Income (2)(3)	Average Yield	Average Balance (1)	Interest Income (2)(3)	Average Yield	Average Balance (1)	Interest Income (2)(3)	Average Yield
	(in billions of Won except percentages)								
Assets									
Interest-earning assets									
Interest-earning deposits in other banks	(Won) 1,208	(Won) 37	3.06%	(Won) 1,527	(Won) 46	2.98%	(Won) 1,387	(Won) 49	3.56%
Call loans and securities purchased under resale agreements	1,590	42	2.64	2,003	64	3.20	1,833	67	3.64
Trading securities (4)	4,478	163	3.64	4,210	158	3.76	5,681	216	3.80
Investment securities (4)	23,451	1,319	5.62	24,296	1,214	5.00	27,091	1,473	5.44
Loans									
Commercial and industrial	43,799	2,738	6.25	45,667	2,719	5.95	56,055	3,528	6.29
Lease financing	158	8	5.30	91	5	5.45	49	4	8.33
Trade financing	7,191	233	3.25	7,331	305	4.16	8,041	394	4.90
Other commercial	4,623	319	6.90	4,317	299	6.91	3,910	377	9.63
General purpose household (5)	28,370	1,834	6.47	32,112	1,900	5.92	46,032	2,733	5.94
Mortgage	4,086	233	5.70	5,187	276	5.32	5,027	303	6.03
Credit cards (3)	1,559	309	19.82	878	223	25.41	644	221	34.29
Total Loans (6)	89,786	5,674	6.32	95,583	5,727	5.99	119,758	7,560	6.31%
Total average interest-earning assets	120,513	7,235	6.00	127,619	7,209	5.65	155,750	9,365	6.01%
Non-interest-earning assets									
Cash and cash equivalents	4,080			4,031			4,680		
Foreign exchange contracts and derivatives	565			933			1,153		
Premises and equipment	2,116			2,081			1,999		
Due from customers on acceptance	379			346			311		
Allowance for loan losses	(2,477)			(1,557)			(768)		
Other non-interest-earning assets (7)	4,101			7,349			8,971		
Total average non-interest-earning assets	8,764			13,183			16,346		

Total average assets	(Won) 129,277	(Won) 7,235	5.12	(Won) 140,802	(Won) 7,209	5.12	(Won) 172,096	(Won) 9,365	5.44%

Table of Contents

	Year ended December 31,								
	2004			2005			2006		
	Average Balance (1)	Interest Expense	Average Cost	Average Balance (1)	Interest Expense	Average Cost	Average Balance (1)	Interest Expense	Average Cost
	(in billions of Won, except percentages)								
Liabilities									
Interest-bearing liabilities									
Deposits:									
Demand deposits	(Won) 19,498	(Won) 106	0.54%	(Won) 21,271	(Won) 42	0.20%	(Won) 24,248	(Won) 57	0.23%
Savings deposits	10,418	289	2.77	9,795	271	2.77	10,900	367	3.37
Certificate of deposit accounts	4,705	194	4.12	6,931	259	3.73	10,525	489	4.64
Other time deposits	50,936	1,949	3.83	52,277	1,898	3.63	61,814	2,570	4.16
Mutual installment deposits	859	41	4.77	761	31	4.05	596	21	3.65
Total deposits	86,416	2,579	2.98	91,035	2,501	2.75	108,083	3,504	3.24
Call money	1,000	30	3.00	934	29	3.08	1,703	71	4.15
Borrowings from the Bank of Korea	1,292	30	2.32	1,258	25	2.00	1,369	34	2.46
Other short-term borrowings	8,328	213	2.56	9,194	269	2.92	9,582	418	4.38
Secured borrowings	2,415	125	5.18	2,839	114	4.03	2,506	115	4.58
Long-term debt	15,301	831	5.43	16,494	789	4.78	26,979	1,323	4.90
Total average interest-bearing liabilities	114,752	3,809	3.32	121,754	3,727	3.06	150,222	5,465	3.64
Non-interest-bearing liabilities									
Demand deposits	3,533			3,704			3,513		
Foreign exchange contracts and derivatives	638			2,733			2,906		
Acceptances outstanding	379			347			311		
Other non-interest-bearing liabilities	5,369			4,876			4,709		
Total average non-interest-bearing liabilities	9,919			11,660			11,439		
Total average liabilities	124,671	3,809	3.06	133,414	3,727	2.79	161,661	5,465	3.38
Average stockholders equity	4,606			7,388			10,435		
Total average liabilities and stockholders equity	(Won) 129,277	(Won) 3,809	2.95	(Won) 140,802	(Won) 3,727	2.65	(Won) 172,096	(Won) 5,465	3.18

(1) Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori SB Asset Management, Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

(2) Includes dividends received on securities, as well as cash interest received on non-accruing loans.

(3) Interest income from credit cards is derived from interest-earning credit card receivables, and consists principally of interest on cash advances and card loans.

(4) We do not invest in any tax-exempt securities.

(5) Includes home equity loans.

(6) Includes non-accrual loans.

(7) Includes non-interest-earning credit card receivables, principally monthly lump-sum purchase receivables, the entire balances of which are subject to repayment on the following payment due date.

Table of Contents

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 based on changes in volume and changes in rate for 2005 compared to 2004 and 2006 compared to 2005. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2005 vs. 2004 Increase/(decrease) due to changes in			2006 vs. 2005 Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest-earning assets						
Interest-earning deposits in other banks	(Won) 10	(Won) (1)	(Won) 9	(Won) (4)	(Won) 8	(Won) 4
Call loans and securities purchased under resale agreements	11	11	22	(5)	8	3
Trading securities	(10)	5	(5)	55	2	57
Investment securities	46	(151)	(105)	140	119	259
Loans						
Commercial and industrial	116	(135)	(19)	619	189	808
Lease financing	(3)	0	(3)	(2)	1	(1)
Trade financing	5	67	72	30	59	89
Other commercial	(21)	(1)	(20)	(28)	106	78
General purpose household [(1)]	240	(174)	66	824	9	833
Mortgage	63	(20)	43	(9)	36	27
Credit cards	(135)	49	(86)	(59)	57	(2)
Total interest income	322	(348)	(26)	1,561	595	2,156
Interest-bearing liabilities						
Deposits						
Demand deposits	9	(73)	(64)	6	8	14
Savings deposits	(18)	0	(18)	31	65	96
Certificate of deposit accounts	92	(27)	65	134	96	230
Other time deposits	53	(104)	(51)	346	326	672
Mutual installment deposits	(5)	(5)	(10)	(7)	(2)	(9)
Call money	(2)	1	(1)	24	18	42
Borrowings from the Bank of Korea	(1)	(4)	(5)	2	7	9
Other short-term borrowings	22	34	56	10	140	150
Secured borrowings	22	(33)	(11)	(13)	13	0
Long-term debt	65	(107)	(42)	502	32	534
Total interest expense	237	(319)	(82)	1,035	703	1,738
Net interest income	(Won) 85	(Won) (29)	(Won) 56	(Won) 526	(Won) (108)	(Won) 418

(1) Includes home equity loans.

Exchange Rates

The table below sets 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 29, 2006, which was (Won)930.0 to US$1.00. We do not intend to imply that

Table of Contents

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 26, 2007, the noon buying rate was (Won)926.1 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average [(1)]	Period-End
2002	(Won) 1,160.6	(Won) 1,332.0	(Won) 1,242.0	(Won) 1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004	1,035.1	1,195.1	1,139.3	1,035.1
2005	997.0	1,059.8	1,023.8	1,010.0
2006	913.7	1,002.9	954.3	930.0
2007 (through June 26, 2007)				
January	925.4	942.2	936.8	941.0
February	932.5	942.3	936.9	942.3
March	937.2	949.1	942.9	941.1
April	926.1	937.0	937.7	931.0
May	922.3	934.0	927.6	927.4
June (through June 26)	926.1	932.3	928.2	926.1

Source: Federal Reserve Bank of New York.

(1) The average of the daily noon buying rates of the Federal Reserve Bank in effect during the relevant period (or portion thereof).

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 corporate credit portfolio

The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

Our loans to small- and medium-sized enterprises increased from (Won)38,831 billion, or 43.9% of our total loans, as of December 31, 2003 to (Won)55,144 billion, or 41.2% of our total loans, as of December 31, 2006. As of December 31, 2006, on a Korean GAAP basis, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were (Won)716 billion, representing 1.4% of such loans to those enterprises. On a Korean GAAP basis, we recorded charge-offs of (Won)107 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2006, compared to charge-offs of (Won)212 billion in 2005. The industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises rose from 2002 through 2004, although these delinquency ratios stabilized in 2005 and 2006. As of December 31, 2006, the delinquency ratio for loans to small- and medium-sized enterprise was calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are overdue by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. From January 1, 2007, the delinquency ratio for small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding

Table of Contents

balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won on a Korean GAAP basis increased from 1.7% as of December 31, 2002 to 2.7% as of December 31, 2004, but decreased to 1.9% as of December 31, 2005 and to 1.4% as of December 31, 2006. Despite this recent decrease, our delinquency ratio may increase in 2007 as a result of, among other things, adverse economic conditions in Korea and, accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we have in the past decided to restrict further lending to small- and medium-sized enterprises in certain industry sectors, such as real property leasing companies and hotels and restaurants, and implemented measures to limit the loan approval authority of branch managers based on the credit performance of the small- and medium-sized enterprise loans provided by their branches.

Many small- and medium-sized enterprises represent sole proprietorships or very small businesses dependent on a relatively limited number of suppliers or customers and tend to be affected to a greater extent than large corporate borrowers by fluctuations in the Korean economy. In addition, small- and medium-sized enterprises often maintain less sophisticated financial records than large corporate borrowers. Therefore, it is generally more difficult for us to judge the level of risk inherent in lending to these enterprises, as compared to large corporations.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea, as well as aggressive marketing and intense competition among banks to lend to this segment, have led to a deterioration in the asset quality of our loans to this segment in the past and such factors may lead to a deterioration of asset quality in the future. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact on our financial condition and results of operations. In addition, many small- and medium-sized enterprises have close business relationships with *chaebols*, primarily as suppliers. Any difficulties encountered by those *chaebols* would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. Recently, some *chaebols* have expanded into China and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, which may have a material adverse impact on such small- and medium-sized enterprises.

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 (including loans, debt and equity securities, credit-related commitments and other exposures) as of December 31, 2006, nine were to companies that were 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)19,876 billion, or 10.6% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could require additional loan loss provisions, which would hurt our results of operations and financial condition. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Exposure to Chaebols.

The allowances we have established against these exposures may not be sufficient to cover all future losses arising from these exposures. In addition, in the case of companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

A large portion of our exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2006, our 20 largest exposures to corporate borrowers totaled (Won)27,521 billion, which represented 14.6% of our total exposures. As of that date, our single largest corporate exposure was to the Bank of Korea, to which we had outstanding credits in the form of debt securities of (Won)10,327 billion, representing

5.5% of our total exposures. Aside from exposure to the Bank of Korea and other government-related agencies, our next largest exposure was to Industrial Bank of Korea, to which we had outstanding exposure of (Won)1,906 billion representing 1.0% of our total exposures. Any deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

We have exposure to companies that are currently or may in the future be put in restructuring, and we may suffer losses as a result of additional loan loss provisions required or the adoption of restructuring plans with which we do not agree.

As of December 31, 2006, our credit exposures to companies that were in workout, corporate restructuring, composition or corporate reorganization amounted to (Won)303 billion or 0.2% of our total credit exposures, of which (Won)177 billion or 58.4% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for loan losses on these credit exposures amounted to (Won)109 billion, or 35.9% of these exposures. These allowances may not be sufficient to cover all future losses arising from our credit exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Including such securities, our exposures as of December 31, 2006 to companies in workout, restructuring, corporate reorganization or composition amounted to (Won)304 billion, or 0.2% of our total exposures.

Risks relating to our consumer credit portfolio

We may experience increases in delinquencies in our consumer loan and credit card portfolios.

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans has grown from (Won)30,357 billion as of December 31, 2003 to (Won)55,705 billion as of December 31, 2006. While our credit card portfolio decreased from (Won)3,964 billion as of December 31, 2003 to (Won)2,128 billion as of December 31, 2004 and to (Won)2,092 billion as of December 31, 2005 as a result of increased charge-offs and our efforts to reduce our credit card exposure, it increased to (Won)2,405 billion as of December 31, 2006. As of December 31, 2006, our consumer loans and credit card receivables represented 41.7% and 1.8% of our total lending, respectively.

The rapid growth in our consumer loan portfolio in recent years may lead to increasing delinquencies and a deterioration in asset quality. Our consumer loans classified as substandard or below decreased from (Won)396 billion, or 1.3% of our consumer loan portfolio, as of December 31, 2003 to (Won)362 billion, or 0.7% of our consumer loan portfolio, as of December 31, 2006. We charged off consumer loans amounting to (Won)74 billion in 2006, as compared to (Won)125 billion in 2005, and recorded provisions in respect of consumer loans of (Won)109 billion in 2006, as compared to (Won)166 billion in 2005. Within our consumer loan portfolio, the outstanding balance of general purpose household loans, which, unlike mortgage or home equity loans, are often unsecured and therefore tend to carry a higher credit risk, has increased from (Won)12,765 billion, or 42.1% of our total outstanding consumer loans, as of December 31, 2003 to (Won)28,117 billion, or 50.5% of our total outstanding consumer loans, as of December 31, 2006.

In our credit card segment, outstanding balances overdue by 30 days or more decreased from (Won)938 billion, or 23.7% of our credit card receivables, as of December 31, 2003 to (Won)203 billion, or 8.5% of our credit card receivables, as of December 31, 2006. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We discontinued the practice of providing such substituted cash advances commencing in September 2003. As of December 31, 2006, these restructured loans amounted to (Won)21 billion, or 0.9% of our credit card balances. Because these restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating

Table of Contents

to our credit card balances. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 0.3% of our credit card balances as of December 31, 2006. We charged off credit card balances amounting to (Won)87 billion in 2006, as compared to (Won)183 billion in 2005, and recorded a reversal of provisions in respect of credit card balances of (Won)5 billion in 2006, as compared to a reversal of provisions of (Won)63 billion in 2005. Delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt, as reflected, for example, in the practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

A deterioration of the asset quality of our consumer loan and credit card portfolios would require us to increase our loan loss provisions and charge-offs and will adversely affect our financial condition and results of operations. In addition, our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that hurt those consumers could result in further deterioration in the credit quality of our consumer 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 adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults.

A decline in the value of the collateral securing our consumer loans and our inability to realize full collateral value may adversely affect our consumer credit portfolio.

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 50% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures adopted by the Korean government in recent years to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our consumer loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

In Korea, foreclosure on collateral generally requires a written petition to a court. An application, when made, may be subject to delays and administrative requirements that may decrease the value of such collateral. We cannot guarantee that we will be able to realize the full value on our collateral as a result of, among other factors, delays in foreclosure proceedings and defects in the perfection of our security interest in collateral. Our failure to recover the expected value of collateral could expose us to potential losses.

Risks relating to our financial holding company structure and strategy

Woori Finance Holdings has a limited operating history as a financial holding company, and our continued success cannot be assured.

Woori Finance Holdings was established in March 2001 by the KDIC as a financial holding company to consolidate the Korean government s interests in four commercial banks (Hanvit Bank, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea), one merchant bank and a number of other financial institutions. Each of these financial institutions was experiencing significant financial difficulties, including a sharp deterioration in asset quality and capital adequacy ratios and a net capital deficit, as a result of the Korean financial crisis that began in 1997, and had been recapitalized by the Korean government using public funds injected through the

KDIC. Since that time, we have reorganized some of those business operations, and we may decide to implement other transfers or reorganizations with respect to our subsidiaries business operations in the future. While we believe that we have generally succeeded in improving our overall financial condition and normalizing our operations, we have a limited operating history as a financial holding company, particularly under our current structure and organization, and may experience difficulties in managing a larger and more diverse business. Accordingly, our continued success cannot be assured.

We may not succeed in implementing our current strategy to take advantage of our integrated financial holding company structure.

Our success under a financial holding company structure depends on our ability to take advantage of our large existing base of retail and corporate banking customers and to implement a strategy of developing and cross-selling diverse financial products and services to them. As part of this strategy, we have standardized our subsidiaries risk management operations (except with respect to credit risk management and operational risk management). We also plan to continue to diversify our product offerings by, among other things, marketing insurance products and expanding our investment banking and investment trust operations. The continued implementation of these plans may require additional investments of capital, infrastructure, human resources and management attention. This strategy entails certain risks, including the possibility that:

- we may fail to successfully integrate our diverse systems and operations;
- we may lack required capital resources;
- we may fail to attract, develop and retain personnel with necessary expertise;
- we may face competition from other financial holding companies and more specialized financial institutions in particular segments; and
- we may fail to leverage our financial holding company structure to realize operational efficiencies and to cross-sell multiple products and services.

If our strategy does not succeed, we may incur losses on our investments and our results of operations and financial condition may suffer.

We may fail to realize the anticipated benefits relating to our reorganization and integration plan and any future acquisitions that we make.

Our success under a financial holding company structure depends on our ability to implement our reorganization and integration plan and to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our various subsidiaries. As part of this plan, between December 2001 and February 2002 we merged the commercial banking business of Peace Bank of Korea into Woori Bank, converted Peace Bank of Korea into a credit card subsidiary, Woori Credit Card, and transferred the credit card business of Woori Bank to Woori Credit Card. We also transferred the credit card business of Kwangju Bank to Woori Credit Card in March 2003. In light of the deteriorating business performance of Woori Investment Bank and with the objective of restructuring the group platform, we merged Woori Investment Bank with Woori Bank in August 2003. In March 2004, in response to the liquidity problems of Woori Credit Card stemming from the deteriorating asset quality of its credit card portfolio, we merged Woori Credit Card with Woori Bank. Although we currently intend for our commercial banking subsidiaries to continue to operate as separate legal entities within our financial holding company structure and to maintain separate loan origination and other functions, we have standardized our subsidiaries risk management operations (except with respect to credit risk management and operational risk management). In October and December 2004, we also acquired a 27.3% voting interest in LGIS, a leading domestic securities firm. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. See Item 4B. Business Overview Business Capital Markets Activities Securities

Table of Contents

Brokerage. As part of our business plan, we have also entered into bancassurance marketing arrangements and may enter into joint venture or acquisition transactions in the future. See Item 4B. Business Overview Business Other Businesses Bancassurance.

Although we have been integrating certain aspects of our subsidiaries operations in our financial holding company structure, they will generally continue to operate as independent entities with separate management and staff. Further integration of our subsidiaries separate businesses and operations, as well as those of any companies we may acquire in the future, could require a significant amount of time, financial resources and management attention. Moreover, that process could disrupt our operations (including our risk management operations) or information technology systems, reduce employee morale, produce unintended inconsistencies in our standards, controls, procedures or policies, and affect our relationships with customers and our ability to retain key personnel. The continued implementation of our reorganization and integration plan, as well as any future additional integration plans that we may adopt in connection with our acquisitions or otherwise, and the realization of the anticipated benefits of our financial holding company structure may be blocked, delayed or reduced as a result of many factors, some of which may be outside our control. These factors include:

- difficulties in integrating the diverse activities and operations of our subsidiaries or any companies we may acquire, including risk management operations and information technology systems, personnel, policies and procedures;
- difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;
- restrictions under the Financial Holding Company Act and other regulations on transactions between our company and, or among, our subsidiaries;
- unexpected business disruptions;
- loss of customers; and
- labor unrest.

Accordingly, we may not be able to realize the anticipated benefits of our current or any future reorganization and integration plan and any future acquisitions that we make, and our business, results of operations and financial condition may suffer as a result.

We may not generate sufficient additional fees to achieve our revenue diversification strategy.

An important element of our overall strategy is increasing our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. Historically, our primary source of revenues has been net interest income from our banking operations. To date, except for credit card, trust management, bancassurance, brokerage and currency transfer fees (including foreign exchange-related commissions) and fees collected in connection with the operation of our investment funds, we have not generated substantial fee income. We intend to develop new sources of fee income as part of our business strategy, including through our investment banking and asset management businesses. Although we, like many other Korean financial institutions, have begun to charge fees to our customers more regularly, customers may prove unwilling to pay additional fees, even in exchange for more attractive value-added services, and their reluctance to do so would adversely affect the implementation of this aspect of our strategy.

In the first half of 2007, our subsidiary Woori Bank reduced or waived many of the fees it charges on its banking services, in response to customer demand and to similar measures taken by other commercial banks in Korea. Specifically, Woori Bank reduced or waived its fees on fund transfers through its ATMs, and exempted its fees on fund transfers through its mobile banking services through the end of 2007. Woori Bank also waived the fees it charges on the opening of household checking accounts and on the issuance of bankers checks and certain tax-related statements. These measures may adversely affect our banking-related fee income.

We depend on limited forms of funding to fund our operations at the holding company level.

We are a financial holding company with no significant assets other than the shares of our subsidiaries. Our primary sources of funding and liquidity are dividends from our subsidiaries, direct borrowings and issuances of equity or debt securities at the holding company level. In addition, as a financial holding company, we are required to meet certain minimum financial ratios under Korean law, including with respect to liquidity, leverage and capital adequacy. Our ability to meet our obligations to our direct creditors and employees and our other liquidity needs and regulatory requirements at the holding company level depends on timely and adequate distributions from our subsidiaries and our ability to sell our securities or obtain credit from our lenders.

In the case of dividend distributions, this depends on the financial condition and operating results of our subsidiaries. In the future, our subsidiaries may enter into agreements, such as credit agreements with lenders or indentures relating to high-yield or subordinated debt instruments, that impose restrictions on their ability to make distributions to us, and the terms of future obligations and the operation of Korean law could prevent our subsidiaries from making sufficient distributions to us to allow us to make payments on our outstanding obligations. See As a holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock. Any delay in receipt of or shortfall in payments to us from our subsidiaries could result in our inability to meet our liquidity needs and regulatory requirements, including minimum liquidity, double leverage and capital adequacy ratios, may disrupt our operations at the holding company level.

In addition, creditors of our subsidiaries will generally have claims that are prior to any claims of our creditors with respect to their assets. Furthermore, our inability to sell our securities or obtain funds from our lenders on favorable terms, or at all, could also result in our inability to meet our liquidity needs and regulatory requirements and may disrupt our operations at the holding company level.

As a holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock.

Since our principal assets at the holding company level are the shares of our subsidiaries, our ability to pay dividends on our common stock largely depends on dividend payments from those subsidiaries. Those dividend payments are subject to the Korean Commercial Code, the Bank Act and regulatory limitations, generally based on capital levels and retained earnings, imposed by the various regulatory agencies with authority over those entities. The ability of our banking subsidiaries to pay dividends is subject to regulatory restrictions to the extent that paying dividends would impair each of their nonconsolidated profitability, financial condition or other cash flow needs. For example:

- under the Korean Commercial Code, dividends may only be paid out of distributable income, an amount which is calculated by subtracting the aggregate amount of a company s paid-in capital and certain mandatory legal reserves from its net assets, in each case as of the end of the prior fiscal period;

- under the Bank Act, a bank also must credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until that reserve equals the amount of its total paid-in capital; and

- under the Bank Act and the requirements of the Financial Supervisory Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Supervisory Commission, then the Financial Supervisory Commission may restrict the declaration and payment of dividends by that bank.

Our subsidiaries may not continue to meet the applicable legal and regulatory requirements for the payment of dividends in the future. If they fail to do so, they may stop paying or reduce the amount of the dividends they pay to us, which would have an adverse effect on our ability to pay dividends on our common stock.

In addition, we and our subsidiaries may not be able to pay dividends to the extent that such payments would result in a failure to meet any of the applicable financial targets under our respective memoranda of understanding with the KDIC. See Other risks relating to our business Our failure to meet the financial and other business targets set forth in current terms of the memoranda of understanding among us, our subsidiaries and the KDIC may result in substantial harm to us or our subsidiaries.

Risks relating to competition

Competition in the Korean financial industry is intense, and we may lose market share and experience declining margins as a result.

Competition in the Korean financial market has been and is likely to remain intense. Some of the financial institutions that we compete with are larger in terms of asset size and customer base and have greater financial resources or more specialized capabilities than our subsidiaries. In addition, in the area of our core banking operations, most Korean banks have been targeting retail customers and small and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to lower profitability and asset quality deterioration in consumer and small- and medium-sized enterprise loans, and have been focusing on developing fee income businesses, including bancassurance and investment products, as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to the asset quality problems previously experienced with respect to credit card receivables. The competition and market saturation resulting from this common focus may make it more difficult for us to secure retail and small and medium-sized customers with the credit quality and on credit terms necessary to maintain or increase our income and profitability.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004 and the acquisition of Korea First Bank by Standard Chartered Bank in April 2005. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

Deregulation of interest rate restrictions may lead to increased competition for deposits, resulting in our loss of deposit customers or an increase in our funding costs.

The Bank of Korea has pursued a gradual liberalization of interest rate restrictions since 1991. The final phase of the government s four-stage deregulation policy became effective in February 2004, when the Bank of Korea lifted the 1% ceiling on interest rates for demand deposit products offered by Korean banks. As a result of the easing of interest rate restrictions, we have faced increasing pricing pressure on deposit products from our competitors. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business. In addition, even if we are able to match our competitors pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

Table of Contents

Other risks relating to our business

Our failure to meet the financial and other business targets set forth in current terms of the memoranda of understanding among us, our subsidiaries and the KDIC may result in substantial harm to us or our subsidiaries.

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2008. See Item 4A. History and Development of the Company History Relationship with the Korean Government. Due to its merger with Woori Credit Card, Woori Bank failed to meet its return on assets target and operating profit per employee target as of June 30, 2004. We also failed to meet three of the financial targets as of June 30, 2004, which were return on total assets, expense to revenue ratio, and operating income per employee. The KDIC notified us that we could not improve fringe benefits for our employees (including salaries), and ordered us to devise and report to the KDIC a plan to meet those three financial targets. We negotiated with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding and, as a result, each of us, Woori Bank, Kyongnam Bank and Kwangju Bank have met all of our financial targets subsequent to such adjustments.

If we or our subsidiaries fail to satisfy our obligations under the current or any new memoranda of understanding in the future, the Korean government, through the KDIC, may impose penalties on us or our subsidiaries. These penalties could include the replacement of our senior management, sale of our assets, restructuring of our organization, restrictions on our business, including a suspension or transfer of our business, and elimination or reduction of existing equity. Accordingly, our failure to meet the obligations in the memoranda of understanding may result in harm to our business, financial condition and results of operations.

We have provided certain assets as collateral in connection with our secured borrowings and could be required to make payments and realize losses in the future relating to those assets.

We have provided certain assets as collateral for our secured borrowings in recent years. These secured borrowings often take the form of asset securitization transactions, where we nominally sell our assets to a securitization vehicle that issues securities backed by those assets, although the assets remain on our balance sheet. These secured borrowings are intended to be fully repaid through recoveries on collateral. Some of these nominal asset sales were with recourse, which means that if delinquencies arise with respect to such assets, we will be required to either repay a proportionate amount of the related secured borrowing (by reversing the nominal sale and repurchasing such assets) or compensate the securitization vehicle for any net shortfalls in its recoveries on such assets. As of December 31, 2006, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)3,590 billion. As of that date, we had established allowances of (Won)0.4 billion in respect of possible losses on those assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets to the extent those payments or recovery shortfalls exceed our allowances.

An increase in interest rates would decrease the value of our debt securities portfolio and raise our funding costs while reducing loan demand and the repayment ability of our borrowers, which could adversely affect us.

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates started to rebound in the second half of 2005. Approximately 86.0% of the debt securities our banking subsidiaries hold pay interest at a fixed rate. All else being equal, an increase in interest rates would lead to a decline in the value of traded debt securities. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. In addition, rising interest rate levels may adversely affect the

Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations.

Our banking subsidiaries meet a significant amount of their funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2006, approximately 86.2% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we believe that the increases in these short-term deposits in recent years were attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of these short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yielding investment opportunities emerge. In that event, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance their operations.

Labor union unrest may disrupt our operations and hinder our ability to continue to reorganize and integrate our operations.

Most financial institutions in Korea, including our subsidiaries, have experienced periods of labor unrest. As part of our reorganization and integration plan, we have transferred or merged some of the businesses operations of our subsidiaries into one or more entities and implemented other forms of corporate and operational restructuring. We may decide to implement other organizational or operational changes, as well as acquisitions or dispositions, in the future. Such efforts have in the past been met with significant opposition from labor unions in Korea. For example, in June 2003, members of Chohung Bank s labor union went on strike to express their opposition to the proposed sale by the KDIC of its interest in that bank to Shinhan Financial Group. Furthermore, in July 2004, members of Koram Bank s labor union engaged in a strike to obtain concessions in connection with the acquisition of Koram Bank by an affiliate of Citibank. Although we did not experience any major labor disputes in connection with the merger of Woori Credit Card with Woori Bank, our employees at Woori Securities staged a one-month strike to protest the merger of Woori Securities into LGIS in March 2005. Actual or threatened labor disputes may in the future disrupt the reorganization and integration process and our business operations, which in turn may hurt our financial condition and results of operations.

The secondary market for corporate bonds in Korea is not fully developed, and, as a result, we may not be able to realize the full marked-to-market value of debt securities we hold when we sell any of those securities.

As of December 31, 2006, our banking subsidiaries held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the KDIC, the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) with a total book value of (Won)14,160 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the relatively low level of current interest rates, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated balance sheet is determined by references to suggested prices posted by Korean rating agencies or

21

Table of Contents

the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

We and our commercial banking subsidiaries may be required to raise additional capital to maintain our capital adequacy ratio or for other reasons, which we or they may not be able to do on favorable terms or at all.

As of December 31, 2006, pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we were required to maintain a minimum requisite capital ratio, which is the ratio of net total equity capital as a percentage of requisite capital, of 100% on a consolidated Korean GAAP basis. Beginning on January 1, 2007, under the new capital adequacy requirements of the Financial Supervisory Commission applicable from such date, we, as a bank holding company, are required to maintain a minimum consolidated equity capital ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated Korean GAAP basis, of 8.0%. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the memoranda of understanding among us, our subsidiaries and the KDIC require us and our subsidiaries to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As of December 31, 2006, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Supervisory Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

If our capital adequacy ratio or those of our subsidiaries deteriorate, we or they may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. As the financial holding company for our subsidiaries, we may be required to raise additional capital to contribute to our subsidiaries. We or our subsidiaries may not be able to obtain additional capital on favorable terms, or at all. The ability of our company and our subsidiaries to obtain additional capital at any time may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. Depending on whether we or our subsidiaries are obtaining any necessary additional capital, and the terms and amount of any additional capital obtained, holders of our common stock or ADSs may experience a dilution of their interest, or we may experience a dilution of our interest in our subsidiaries.

We may face increased capital requirements under the new Basel Capital Accord.

In June 2006, the Financial Supervisory Service announced that it would implement the new Basel Capital Accord, referred to as Basel II, in Korea beginning on January 1, 2008. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including our commercial banking subsidiaries. Building upon the initial Basel Capital Accord of 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Basel II also institutes new measures that will require our commercial banking subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements, while Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. Since Woori Bank will be implementing an internal ratings-based approach for the first time in connection with its implementation of Basel II, its internal rating model may require a significant increase in its capital requirements, which will require it to either improve its asset quality or raise additional capital. See Item 5A. Operating Results Overview New Basel Capital Accord and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

Our Internet banking services are subject to security concerns relating to the commercial use of the Internet.

We provide Internet banking services to our retail and corporate customers, which require sensitive customer information, including passwords and account information, to be transferred over a secure connection on the Internet. However, connections on the Internet, although secure, are not free from security breaches. We may experience security breaches in connection with our Internet banking service in the future, which may result in liability to our customers and third parties and materially and adversely affect our business.

We may experience disruptions, delays and other difficulties from our information technology systems.

We rely on our information technology systems for our daily operations including billing, effecting online and offline banking transactions and record keeping. We may experience disruptions, delays or other difficulties from our information technology systems, which may have an adverse effect on our business and adversely impact our customers confidence in us.

We do not publish interim financial information on a U.S. GAAP basis.

Neither we nor our subsidiaries publish interim financial information on a U.S. GAAP basis. U.S. GAAP differs in significant respects from Korean GAAP, particularly with respect to the establishment of loan loss allowances and provisions. See Item 5B. Financial Condition Selected Financial Information Under Korean GAAP and Reconciliation with Korean GAAP. As a result, our allowance and provision levels, as well as certain other balance sheet and income statement items, reflected in our interim financial statements under Korean GAAP may differ substantially from those required to be reflected under U.S. GAAP.

We are generally subject to Korean corporate governance and disclosure standards, which differ in significant respects from those in other countries.

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange, we are subject to certain corporate governance standards as mandated by the Sarbanes-Oxley Act of 2002. However, foreign private issuers, including us, are exempt from certain corporate governance requirements under the Sarbanes-Oxley Act or under the rules of the New York Stock Exchange. There may also be less publicly available information about Korean companies, such as us, than is regularly made available by public or non-public companies in other countries. Such differences in corporate governance standards and less public information could result in less than satisfactory corporate governance practices or disclosure to investors in certain countries.

Risks relating to government control

The KDIC, which is our controlling stockholder, is controlled by the Korean government and could cause us to take actions or pursue policy objectives that may be against your interests.

The Korean government, through the KDIC, currently owns 72.97% of our outstanding common stock. So long as the Korean government remains our controlling stockholder, it will have the ability to cause us to take actions or pursue policy objectives that may conflict with the interests of our other stockholders. For example, in order to further its public policy goals, the Korean government could request that we participate with respect to a takeover of a troubled financial institution or encourage us to provide financial support to particular entities or sectors. Such actions or others that are not consistent with maximizing our profits or the value of our common stock may have an adverse impact on our results of operations and financial condition and may cause the price of our common stock and ADSs to decline.

In addition, pursuant to the terms of our memorandum of understanding with the KDIC, we are required to take any necessary actions (including share buybacks and payment of dividends) to return to the KDIC the funds it injected into us and our subsidiaries, so long as those actions do not cause a material adverse effect on the normalization of our business operations as contemplated by the memorandum of understanding. Any actions that we take as a result of this requirement may favor the KDIC over our other stockholders and may therefore be against your interests.

Risks relating to government regulation and policy

New loan loss provisioning guidelines implemented by the Financial Supervisory Commission may require us to increase our provisioning levels under Korean GAAP, which could adversely affect us.

In recent years, the Financial Supervisory Commission has implemented changes to the loan loss provisioning requirements applicable to Korean banks, which have resulted in increases to our provisions and adversely impacted our reported results of operations and financial condition under Korean GAAP. Until 2004, the requirement to establish allowances for possible losses in respect of confirmed acceptances and guarantees under Korean GAAP applied only to those classified as substandard or below. Commencing in the second half of 2005, the requirement was extended to cover confirmed acceptances and guarantees classified as normal or precautionary, as well as unconfirmed acceptances and guarantees and bills endorsed. Similarly, until 2004, the requirement to establish other allowances in respect of unused credit lines under Korean GAAP applied only to the unused credit limit for cash advances on active credit card accounts, defined as those with a transaction recorded during the past year. Commencing in the second half of 2005, the requirement was extended to cover the unused credit limit for credit card purchases on active accounts, as well as the unused credit limit on consumer and corporate loans. Due to these changes, our consolidated allowance for acceptances and guarantees and other allowances under Korean GAAP increased by (Won)23 billion and (Won)134 billion, respectively, as of December 31, 2005, and our consolidated income before income tax under Korean GAAP for 2005 decreased by (Won)157 billion.

Furthermore, in the second half of 2006, the Financial Supervisory Commission increased the minimum required provisioning levels applicable under Korean GAAP to loans, confirmed and unconfirmed acceptances and guarantees, bills endorsed and unused credit lines that are classified as normal and precautionary. The Financial Supervisory Commission also extended the requirement to establish other allowances on unused credit lines under Korean GAAP to cover inactive credit card accounts. As a result of these changes, our consolidated allowance for loan losses, allowance for acceptances and guarantees and other allowances for unused lines of credit under Korean GAAP increased by (Won)283 billion, (Won)17 billion and (Won)125 billion, respectively, as of December 31, 2006, and our consolidated income before income tax under Korean GAAP for 2006 decreased by (Won)425 billion.

In addition, in November 2004, the Financial Supervisory Commission announced that it will implement new loan loss provisioning guidelines, which Korean banks will be required to follow from the end of 2007 in preparing financial statements under Korean GAAP. These guidelines include a new requirement that banks take into account expected losses with respect to credits in establishing their allowance for loan losses, instead of establishing such allowances based on the classification of credits under the current asset classification criteria. Under the new guidelines, all Korean banks were required to establish systems to calculate their expected losses based on their historical losses during 2005. The Financial Supervisory Commission also announced that

Table of Contents

Korean banks could voluntarily comply with the new loan loss provisioning guidelines commencing in 2005. Specifically, in the second half of 2005, banks that had implemented a credible internal system for evaluating expected losses could establish their allowance for loan losses under Korean GAAP based on their historical losses, so long as the total allowance for loan losses established exceeded the levels required under the asset classification-based provisioning guidelines. Similarly, in the first half of 2006, banks that had implemented a credible system for evaluating expected losses could establish their allowance for loan losses under Korean GAAP based on such expected losses, so long as the total allowance established exceeded required levels. We complied with the new guidelines and implemented a system for evaluating expected losses in establishing our allowance for loan losses, which did not in and of itself result in an increase in our provisions for loan losses under Korean GAAP in 2005 or 2006. However, the Financial Supervisory Commission has not since released any further details regarding the new guidelines, and it is unclear whether such new guidelines will be implemented at the end of 2007 as previously announced. Full compliance with the new guidelines may increase our provisions for loan losses under Korean GAAP compared to previously mandated levels. Any future required increases in our provisions for loan losses could have an adverse effect on our reported results of operations and financial condition under Korean GAAP and our reported capital adequacy ratio, which may adversely affect the market price of our common stock and ADSs.

Government regulation of consumer lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our consumer banking operations.

In light of concerns regarding the potential risks of excessive consumer lending, particularly mortgage and home equity lending, the Korean government has in recent years adopted more stringent regulations with respect to consumer lending by Korean banks. For example, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which included:

- building more residential apartments and houses;
- enforcing more stringent supervision of property speculation; and
- increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has also expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary. For example, from 2004 through 2006, the Korean government has:

- raised the residential property tax applicable to residential properties in cases where such property represents the third or more residential property owned by a single individual;
- placed a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties;
- amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be devoted to the construction of rental residential properties;
- adopted more stringent guidelines that require financial institutions to impose debt-to-income limits on customers, in addition to loan-to-value ratio requirements, in connection with mortgage loans for real estate located in areas of wide-spread real property

speculation or excessive investment;

issued unofficial guidance recommending that Korean banks further limit their mortgage and home equity lending; and

adopted new measures to increase the supply of residential properties, including long-term residential lease properties.

Table of Contents

See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans.

These regulations and measures, as well as any similar regulations that the Korean government may adopt in the future, may have the effect of constraining the growth and profitability of our consumer banking operations, especially in the area of mortgage and home equity lending. Furthermore, these regulations and measures may result in substantial future declines in real estate prices in Korea, which will reduce the value of the collateral securing our mortgage and home equity lending. See Other risks relating to our business A decline in the value of the collateral securing our loans and our inability to realize full collateral value may adversely affect our credit portfolio.

Government regulation of the credit card business has increased significantly in recent years, which may hurt our credit card operations.

Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in recent years, the Korean government has heightened its regulatory oversight of the credit card industry. From mid-2002 through early 2003, the Ministry of Finance and Economy and the Financial Supervisory Commission adopted a variety of amendments to existing regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in volumes for credit card loans, increased minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also implemented a number of changes to the rules governing the evaluation and reporting of credit card balances and delinquency ratios, as well as procedures governing which persons may receive credit cards. For more details relating to these regulations, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

The Korean government may adopt further regulatory changes in the future that affect the credit card industry. Depending on their nature, such changes may adversely affect our credit card operations, by restricting its growth or scope, subjecting it to stricter requirements and potential sanctions or greater competition, constraining its profitability or otherwise.

The Korean government promotes lending and financial support by the Korean financial industry to certain types of borrowers as a matter of policy, which financial institutions, including us, may decide to follow.

Through its policy guidelines and recommendations, the Korean government has promoted and, as a matter of policy, may continue to attempt to promote lending by the Korean financial industry to particular types of borrowers. For example, the Korean government has in the past announced policy guidelines requesting financial institutions to participate in remedial programs for troubled corporate borrowers, as well as policies identifying sectors of the economy it wishes to promote and making low interest funding available to financial institutions that lend to these sectors. The government has in this manner encouraged mortgage lending to low-income individuals and lending to small and medium-sized enterprises. We expect that all loans or credits made pursuant to these government policies will be reviewed in accordance with our credit approval procedures. However, these or any future government policies may influence us to lend to certain sectors or in a manner in which we otherwise would not in the absence of that policy.

In the past, the Korean government has also issued policy recommendations encouraging financial institutions in Korea to provide financial support to particular sectors as a matter of policy. For example, in light of the financial market instability in Korea resulting from the liquidity problems faced by credit card companies during the first quarter of 2003, the Korean government announced temporary measures in April 2003 intended to provide liquidity support to credit card companies. These measures included, among other things, requesting banks and other financial institutions to agree to extend the maturity of debt securities of credit card companies

Table of Contents

that they held and to make contributions to mutual funds to enable them to purchase debt securities of credit card companies.

The Korean government may in the future request financial institutions in Korea, including us, to make investments in or provide other forms of financial support to particular sectors of the Korean economy as a matter of policy, which financial institutions, including us, may decide to accept. We may incur costs or losses as a result of providing such financial support.

The Financial Supervisory Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

If the Financial Supervisory Commission deems our financial condition or the financial condition of our subsidiaries to be unsound, or if we or our subsidiaries fail to meet applicable regulatory standards, such as minimum capital adequacy and liquidity ratios, the Financial Supervisory Commission may order, among other things:

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;
- sales of assets;
- closures of branch offices;
- mergers with other financial institutions; and
- suspensions of a part or all of our business operations.

If any of these measures are imposed on us by the Financial Supervisory Commission, they could hurt our business, results of operations and financial condition. In addition, if the Financial Supervisory Commission orders us to partially or completely reduce our capital, you may lose part or all of your investment.

Risks relating to Korea

Unfavorable financial and economic developments in Korea may have an adverse effect on us.

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which the country took several years to recover.

The economic indicators in 2004, 2005 and 2006 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices, the general weakness of the global economy and the possibility of an outbreak of avian flu in Asia and other parts of the world have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy. Any future deterioration of the Korean or global economy could adversely affect our financial condition and results of operations.

Developments that could hurt Korea s economy in the future include:

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including a further increase in oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates and stock markets;

- substantial decreases in the market prices of Korean real estate;

financial problems or lack of progress in restructuring of Korean conglomerates, other large troubled companies, their suppliers or the financial sector;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain Korean conglomerates;

a slowdown in consumer spending and the overall economy;

adverse developments in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

the continued emergence of the Chinese economy, to the extent its benefits (such as increased exports to China) are outweighed by its costs (such as competition in export markets or for foreign investment and the relocation of the manufacturing base from Korea to China);

social and labor unrest;

a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, would lead to an increased government budget deficit;

geo-political uncertainty and risk of further attacks by terrorist groups around the world;

the recurrence of severe acute respiratory syndrome, or SARS, or an outbreak of avian flu in Asia and other parts of the world;

deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including deterioration resulting from trade disputes or disagreements in foreign policy;

political uncertainty or increasing strife among or within political parties in Korea;

hostilities involving oil producing countries in the Middle East and any material disruption in the supply of oil or increase in the price of oil; and

an increase in the level of tensions or an outbreak of hostilities between North Korea and Korea or the United States.

Escalations in tensions with North Korea could have an adverse effect on us and the market price of our ADSs.

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapon and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its

Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program.

In addition to conducting test flights of long-range missiles, North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council passed a resolution that prohibits any United Nations member state from conducting transactions with North Korea in connection with any large scale arms and material or technology related to missile development or weapons of mass destruction and from providing luxury goods to North Korea, imposes an asset freeze and travel ban on persons associated with North Korea s weapons program, and calls upon all United Nations member states to take cooperative action, including through

Table of Contents

inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications. In return, the other five parties in the six-party talks agreed to provide 50,000 tons of heavy fuel oil to North Korea in the initial phase of their energy assistance.

There can be no assurance that the February 2007 accord will be implemented as agreed or that the level of tension on the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if high-level contacts break down or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

Labor unrest in Korea may adversely affect our operations.

Any future economic downturn in Korea or an increase in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Bank of Korea, the unemployment rate increased from 3.3% in 2002 to 3.4% in 2003 and rose further to 3.5% in 2004 and 2005. Although the unemployment rate remained steady at 3.5% in 2006, an increase in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

Financial instability in other countries, particularly emerging market countries in Asia, could adversely impact our business and cause the price of the ADSs to go down.

The Korean market and the Korean economy are influenced by economic and market conditions in other countries, particularly emerging market countries in Asia, including China. Financial turmoil in Asia, Russia and elsewhere in the world in recent years has adversely affected the Korean economy. Although economic conditions are different in each country, investors reactions to developments in one country can have adverse effects on the securities of companies in other countries, including Korea. A loss of investor confidence in the financial systems of emerging and other markets may cause increased volatility in Korean financial markets. We cannot be certain that financial events of the type that occurred in emerging markets in Asia in 1997 and 1998 will not happen again in Asia or in other markets in which we may invest, or that such events will not have an adverse effect on our business or the price of our common stock and ADSs.

Risks relating to our common stock and ADSs

The market price of our common stock and ADSs could be depressed by the ability of the KDIC to sell large blocks of our common stock.

The KDIC currently owns 588,158,609 shares, or 72.97%, of our outstanding common stock. In the future, the KDIC may choose to sell large blocks of our common stock publicly or privately to a strategic or financial investor, including for the purpose of recovering the public funds it injected into our subsidiaries to recapitalize them. For example, in September 2004, the KDIC sold approximately 45 million of our shares of common stock in a private offering for approximately (Won)324 billion, which constituted 5.7% of our outstanding common stock, and in June 2007, the KDIC disposed of approximately 40 million shares of our common stock, which constituted 5.0% of our outstanding common stock.

Under the Financial Holding Company Act, the KDIC was originally required to dispose of all of its holdings of our common stock by the end of March 2005 but the Korean National Assembly passed a bill to extend the deadline for two years until 2007. An additional one year extension was approved by the Public Fund Oversight Committee of the Korean government in March 2007.

According to the privatization plans announced by the KDIC, the KDIC will seek to dispose of all of its holdings of our common stock through registered or overseas offerings, sales to strategic investors, block sales and other available means, in a manner consistent with its mandate from the Public Fund Oversight Committee of the Korean government to maximize its returns and contribute to the development of the Korean financial industry in connection with such disposal. However, such plans are subject to change depending on market conditions and other factors. Accordingly, we do not know when, how or what percentage of our shares owned by the KDIC will be disposed of, or to whom such shares will be sold. As a result, we cannot predict the impact of such sales on us or our stock prices. Any future sales of our common stock or ADSs in the public market or otherwise by the KDIC, or the possibility that such sales may occur, could depress the prevailing market prices of our common stock and ADSs.

Ownership of our common stock is restricted under Korean law.

Under Korean law, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a financial holding company such as us that controls nationwide banks, with the exception of certain stockholders that are non-financial business group companies, whose applicable limit is 4.0%. The Korean government and the KDIC are exempt from this limit, and investors may also exceed the 10.0% limit upon approval by the Financial Supervisory Commission. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Ownership of a Financial Holding Company. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds that limit, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Supervisory Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to (Won)50 million and/or up to 0.03% of the book value of such shares per day until the date of disposal.

You will not be able to exercise dissent and appraisal rights unless you have withdrawn the underlying shares of our common stock and become our direct stockholder.

In some limited circumstances, including the transfer of the whole or any significant part of our business and the merger or consolidation of us with another company, dissenting stockholders have the right to require us to purchase their shares under Korean law. However, if you hold our ADSs, you will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on your behalf. Our deposit agreement does not require the depositary to take any action in respect of exercising dissent and appraisal rights. In such a situation, holders of our ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

You may be limited in your ability to deposit or withdraw common stock.

Under the terms of our deposit agreement, holders of common stock may deposit such stock with the depositary s custodian in Korea and obtain ADSs, and holders of ADSs may surrender ADSs to the depositary and receive common stock. However, to the extent that a deposit of common stock exceeds any limit that we may specify from time to time, that common stock will not be accepted for deposit unless our consent with respect to such deposit has been obtained. We currently have not set any such limit; however, we have the right to do so at any time. Under the terms of the deposit agreement, no consent would be required if the shares of common stock were to be obtained through a dividend, free distribution, rights offering or reclassification of such stock. We have consented, under the terms of the deposit agreement, to any deposit unless the deposit would be prohibited by applicable laws or violate our articles of incorporation. If we choose to impose a limit on deposits in the future, however, we might not consent to the deposit of any additional common stock. In that circumstance, if you surrender ADSs and withdraw common stock, you may not be able to deposit the stock again to obtain ADSs. See Item 9C. Markets Restrictions Applicable to Shares.

Table of Contents

You will not have preemptive rights in some circumstances.

The Korean Commercial Code of 1962, as amended, and our articles of incorporation require us, with some exceptions, to offer stockholders the right to subscribe for new shares of our common stock in proportion to their existing shareholding ratio whenever new shares are issued. If we offer any rights to subscribe for additional shares of our common stock or any rights of any other nature, the depositary, after consultation with us, may make the rights available to holders of our ADSs or use commercially feasible efforts to dispose of the rights on behalf of such holders, in a riskless principal capacity, and make the net proceeds available to such holders. The depositary will make rights available to holders of our ADSs only if:

- we have requested in a timely manner that those rights be made available to such holders;
- the depositary has received the documents that are required to be delivered under the terms of the deposit agreement, which may include confirmation that a registration statement filed by us under the U.S. Securities Act of 1933, as amended, is in effect with respect to those shares or that the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act; and
- the depositary determines, after consulting with us, that the distribution of rights is lawful and commercially feasible.

Holders of our common stock located in the United States may not exercise any rights they receive absent registration or an exemption from the registration requirements under the Securities Act.

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings. If a registration statement is required for you to exercise preemptive rights but is not filed by us or is not declared effective, you will not be able to exercise your preemptive rights for additional ADSs and you will suffer dilution of your equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case you will receive no value for these rights.

Your dividend payments and the amount you may realize upon a sale of your ADSs will be affected by fluctuations in the exchange rate between the U.S. dollar and the Won.

Our common stock is listed on the Stock Market Division of the Korea Exchange and quoted and traded in Won. Cash dividends, if any, in respect of the shares represented by the ADSs will be paid to the depositary in Won and then converted by the depositary into U.S. dollars, subject to certain conditions. Accordingly, fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts you will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that you would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

The market value of your investment may fluctuate due to the volatility of, and government intervention in, the Korean securities market.

Our common stock is listed on the Stock Market Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1,138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point, or 11.6%, drop, which represented the single largest decrease in the history of the KOSPI. On June 26, 2007, the KOSPI closed at 1,749.55. Like other securities markets, including those in developed countries, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has induced mergers to reduce what it considers excess capacity in a particular industry and has also induced private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly, actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict you and the depositary from converting and remitting dividends and other amounts in U.S. dollars.

If the Korean government deems that certain emergency circumstances, including, but not limited to, severe and sudden changes in domestic or overseas economic circumstances, extreme difficulty in stabilizing the balance of payments or implementing currency, exchange rate and other macroeconomic policies, have occurred or are likely to occur, it may impose certain restrictions provided for under the Foreign Exchange Transaction Law, including the suspension of payments or requiring prior approval from governmental authorities for any transaction. See Item 10D. Exchange Controls General.

Other Risks

You may not be able to enforce a judgment of a foreign court against us.

We are a corporation with limited liability organized under the laws of Korea. Substantially all of our directors and officers and other persons named in this annual report reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this annual report and substantially all of our assets are located in Korea. As a result, it may not be possible for you to effect service of process within the United States, or to enforce against them or us in the United States judgments obtained in United States courts based on the civil liability provisions of the federal securities laws of the United States. There is doubt as to the enforceability in Korea, either in original actions or in actions for enforcement of judgments of United States courts, of civil liabilities predicated on the United States federal securities laws.

Item 4. INFORMATION ON THE COMPANY

Item 4A. *History and Development of the Company*

Overview

Woori Finance Holdings was incorporated as Korea s first financial holding company on March 27, 2001 and commenced commercial operations on April 2, 2001. We were established by the KDIC to consolidate the Korean government s interests in:

- four commercial banks (Hanvit Bank (since renamed Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (since renamed Woori Credit Card and merged with Woori Bank)),
- one merchant bank (Hanaro Merchant Bank (since renamed Woori Investment Bank and merged with Woori Bank)), and
- a number of other smaller financial institutions.

Table of Contents

We were created pursuant to the Financial Holding Company Act, which was enacted in October 2000 and which, together with associated regulations and a related presidential decree, has enabled banks and other financial institutions, including insurance companies, investment trust companies, credit card companies and securities companies, to be organized and managed under the auspices of a single financial holding company.

Our legal and commercial name is Woori Finance Holdings Co., Ltd. Our registered office and corporate headquarters are located at 203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea. Our website address is *http://www.woorifg.com.*

History

Establishment of Woori Finance Holdings

In response to the financial and economic downturn beginning in late 1997, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector. As part of these measures, on October 1, 1998, the KDIC purchased 95.0% of the outstanding shares of Hanvit Bank (which was at the time named the Commercial Bank of Korea) and 95.6% of the outstanding shares of Hanil Bank (which was subsequently merged into Hanvit Bank). These banks had suffered significant losses in 1997 and 1998. On a Korean GAAP basis, the Commercial Bank of Korea incurred losses of (Won)164 billion in 1997 and (Won)1,644 billion in the first ten months of 1998, while Hanil Bank incurred losses of (Won)281 billion in 1997 and (Won)1,717 billion in the first ten months of 1998. The Korean government took pre-emptive measures to ensure the survival of these and other banks as it believed that bank failures would have a substantial negative impact on the Korean economy. The KDIC acquired the Commercial Bank of Korea and Hanil Bank in particular because they were two of the largest nationwide banks and it was believed that their continued existence was accordingly important to help preserve the stability of Korea s financial system.

Despite the measures implemented by the government, however, the predecessor operations of substantially all of our subsidiaries recorded significant losses in 1999 and 2000, primarily as a result of high levels of non-performing credits and loan loss provisioning. Based on subsequent audits conducted by the Financial Supervisory Service of a number of Korean commercial and merchant banks, the Financial Supervisory Commission announced in April 2000 that certain financial institutions had a high risk of insolvency and that substantial remedial measures were required.

Commercial Banking Operations. The Korean government, through the Financial Supervisory Commission, decided in December 2000 to write down the capital of each of Hanvit Bank (now Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (which was renamed Woori Credit Card and eventually merged with Woori Bank) to zero. It accomplished this by having the Financial Supervisory Commission issue a capital reduction order with respect to these banks pursuant to its regulatory authority. Under Korean law, the Financial Supervisory Commission has the power to order a distressed financial institution to effect a capital reduction by requiring it either to cancel the whole or a part of the shares held by certain shareholders with or without consideration or to effect a reverse stock-split with respect to the shares owned by certain shareholders. Although the precise requirements of any particular order will vary on a case by case basis, with respect to these banks, the capital reduction order required them to cancel their outstanding shares without providing consideration to shareholders.

After that order was issued by the Financial Supervisory Commission, it was ratified by the board of directors of each bank. Immediately following that ratification, each bank published a notice in two newspapers in Korea that informed shareholders who dissented as to the capital reduction that the relevant bank would be required to purchase their shares, so long as they made a request in writing no more than ten business days following the publication date. Each bank purchased the shares owned by dissenting shareholders within two months after receiving those requests, in each case at a price negotiated between the bank and its dissenting

Table of Contents

shareholders. With respect to each of the four banks, the bank and the dissenting shareholders were unable to agree on a purchase price. Accordingly, an accounting expert determined that price. Although the shareholders of each of Hanvit Bank, Kyongnam Bank and Kwangju Bank subsequently requested, pursuant to Korean law, that a court review and adjust the determined price, the court in each case declined to make any such adjustment.

The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC in two parts. The first part of this recapitalization would comprise capital injections of approximately (Won)3.6 trillion, in return for new shares of the relevant banks, to eliminate their capital deficits, while the second part would comprise further capital contributions of approximately (Won)2.6 trillion, without consideration, to increase their capital adequacy ratios to more than 10%. Accordingly, trading of shares of these four commercial banks was suspended in December 2000, and the capital of each was written down to zero after each bank purchased outstanding shares from the then-existing dissenting minority shareholders. On December 22, 2000, the Korean government and the labor unions of the four commercial banks entered into an agreement under which the labor unions consented to a plan to include their respective banks as subsidiaries of a state-run financial holding company that would have full management rights to oversee the restructuring of those banks.

In December 2000, the KDIC made initial capital injections to Hanvit Bank ((Won)2,764 billion), Kyongnam Bank ((Won)259 billion), Kwangju Bank ((Won)170 billion) and Peace Bank of Korea ((Won)273 billion), in return for new shares of those banks. The KDIC also agreed to make additional capital contributions, not involving the issuance of new shares, in the future, which were made in September 2001 to Hanvit Bank ((Won)1,877 billion), Kyongnam Bank ((Won)94 billion), Kwangju Bank ((Won)273 billion) and Peace Bank of Korea ((Won)339 billion). These subsequent capital contributions were made pursuant to a memorandum of understanding entered into among the KDIC and the four commercial banks on December 30, 2000. The terms of the memorandum of understanding provided that the four banks would subscribe for bonds issued by the KDIC in an aggregate principal amount equal to the capital contribution amount agreed to by the KDIC, and that the KDIC would then pay the subscription price back to the banks as capital contributions. From the perspective of the KDIC, the issuance of the bonds avoided the need to raise additional cash in connection with the capital contributions. From the perspective of the banks, the KDIC bonds qualified as low-risk assets that helped increase their capital adequacy ratios. The KDIC bonds also paid interest at market rates and were liquid instruments that could be readily sold in the market by the banks for cash.

Merchant Banking Operations. On November 3, 2000, the KDIC established Hanaro Merchant Bank (which was renamed Woori Investment Bank) to restructure substantially all of the assets and liabilities of four failed merchant banks (Yeungnam Merchant Banking Corporation, Central Banking Corporation, Korea Merchant Banking Corporation and H&S Investment Bank) that were transferred to it.

Formation of Financial Holding Company. Partly as a response to perceived inefficiencies in the mechanism by which Korean financial institutions were managed and partly as a first step to divesting itself of its stake in these and other recapitalized financial institutions, the Korean government implemented a number of significant initiatives relating to the Korean financial industry. One of these initiatives, the Financial Holding Company Act, together with associated regulations and a related presidential decree, created a means by which banks and other financial institutions, including insurance companies, investment trust companies, credit card companies and securities companies, could be organized and managed under the auspices of a single financial holding company.

In January 2001, Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank agreed in principle to consolidate and become subsidiaries of a new financial holding company. In July 2001, each entity entered into a memorandum of understanding with us, and we entered into a separate memorandum of understanding with the KDIC. These memoranda of understanding along with those entered with between our subsidiaries and the KDIC, which are described in more detail below, established the basis for the relationships among us, our subsidiaries and the KDIC. These memoranda set forth, among other things, financial targets and restructuring objectives that we and our subsidiaries were expected to satisfy in order to

Table of Contents

create a fully integrated financial services provider and to enable the KDIC to recover the public funds used to recapitalize our subsidiaries. On March 27, 2001, the KDIC transferred all of its shares in each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank to our company in exchange for our newly issued shares. Accordingly, we became the sole owner of those subsidiaries. We subsequently listed our shares on the Stock Market Division of the Korea Exchange on June 24, 2002.

Pursuant to the terms of the Financial Holding Company Act, we are subject to certain limitations on our activities that would not be applicable to most other Korean corporations. For example, we:

- may not engage in any business other than managing our subsidiaries;
- must obtain prior approval from, or file a prior report with, the Financial Supervisory Commission before we can acquire control of another company;
- must obtain permission from the Financial Supervisory Commission to liquidate or to merge with another company;
- must inform the Financial Supervisory Commission if there is any change in our officers, directors or largest shareholder; and
- must inform the Financial Supervisory Commission if we cease to control any of our direct or indirect subsidiaries by disposing of shares in those subsidiaries.

See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies.

Relationship with the Korean Government

Our relationship with the Korean government is governed by a number of agreements, including in particular the agreements discussed below. In addition, the Korean government, through the KDIC, is our largest shareholder and accordingly has the ability to require us to take a number of actions beyond those specifically covered by these agreements. See Item 3D. Risk Factors Risks relating to government control and Risks relating to government regulation and policy.

Labor-Government Agreement. Under the December 2000 agreement between our subsidiaries labor unions and the Korean government, we control the management strategies of our subsidiaries and have the ability to dispose of overlapping business lines. Pursuant to this agreement, any downsizing that may be required in connection with the reorganization of our subsidiaries operations should be implemented based on separate agreements concluded between us and our subsidiaries labor unions. In July 2002, we reached an agreement with the labor unions of Kyongnam Bank and Kwangju Bank pursuant to which we agreed to maintain the two banks as separate entities, while integrating the operating standards (including risk management operations) and information technology systems of our commercial banking subsidiaries.

Memoranda of Understanding between our Subsidiaries and the KDIC. In December 2000, in connection with the capital contributions made by the KDIC into each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank, these subsidiaries entered into separate memoranda of understanding with the KDIC that included business normalization plans. The plans were substantially identical with respect to each bank, other than with respect to specific financial targets, and primarily dealt with each subsidiary s obligation to implement a two-year business normalization plan covering 2001 and 2002. To the extent that any subsidiary fails to implement its business normalization plan or to meet financial targets, the KDIC has the right to impose sanctions on that subsidiary s directors or employees, or to require the subsidiary to take certain actions. In addition, each subsidiary is required to take all actions necessary to enable us to return to the KDIC any public funds injected into them, so long as that action does not cause a material adverse effect on the normalization of business operations as contemplated by the memorandum of understanding.

Table of Contents

Each subsidiary prepared a two-year business normalization plan that was approved by the KDIC. Each plan included recapitalization goals and deadlines, econometric models, plans to dispose of non-performing loans, cost reduction initiatives, future management and business strategies and other restructuring plans. Each plan also set forth six financial targets for each quarter of 2001 and 2002 that the applicable subsidiary was required to meet.

In addition, the directors of each subsidiary executed a letter of undertaking, pursuant to which they assumed responsibility for the relevant subsidiary s performance in executing these obligations.

Under each memorandum of understanding, the KDIC could exercise its discretion in determining whether to take punitive measures against any subsidiary that failed to meet any financial targets. The subsidiaries generally met their targets, other than Peace Bank of Korea, which failed to meet five of its six financial targets as of June 30, 2001. We decided to merge Peace Bank of Korea s commercial banking business into Hanvit Bank and to transform Peace Bank of Korea into our credit card subsidiary, Woori Credit Card. See Reorganization and Integration Plan. In March 2002, Woori Credit Card entered into a memorandum of understanding with the KDIC that included a business normalization plan. This replaced the earlier memorandum of understanding entered into by Peace Bank of Korea and the KDIC in December 2000. The business normalization plan was substantially similar to the business normalization plan agreed to by Peace Bank of Korea.

Woori Investment Bank (formerly known as Hanaro Merchant Bank) also failed to meet three of its six financial targets as of December 31, 2002. In August 2003, we merged Woori Investment Bank with Woori Bank.

The subsidiaries (with the exception of Woori Investment Bank and Woori Credit Card) entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in January 2003. In May 2003, Woori Credit Card entered into a similar business normalization plan with the KDIC. Woori Credit Card failed to meet three of its five financial targets as of June 30 and September 30, 2003 and failed to meet four of its five financial targets as of December 31, 2003. As a result of these failures, the KDIC imposed penalties on Woori Credit Card, including the termination of certain members of its senior management and the reduction of the compensation of certain others. In December 2003, our board of directors resolved to merge Woori Credit Card with Woori Bank, which merger was completed in March 2004. Kwangju Bank and Kyongnam Bank also failed to meet their respective return on assets target as of December 31, 2003, although they met such target as of March 31, 2004. Due to its merger with Woori Credit Card, Woori Bank also failed to meet its return on assets target and operating profit per employee target as of June 30, 2004. We negotiated with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding and, as a result, each of Woori Bank, Kyongnam Bank and Kwangju Bank met its financial targets as of December 31, 2004.

Our subsidiaries entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC on April 2005. In addition to the new restructuring measures and financial targets, the plan primarily dealt with ways to reduce labor cost and increase employees productivity and efficiency in our subsidiaries. Each of Woori Bank, Kyongnam Bank and Kwangju Bank met its financial targets under the plan. Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with the KDIC in April 2007. See Recent Developments with the KDIC.

Memorandum of Understanding with the KDIC. In July 2001, we entered into a memorandum of understanding with the KDIC, which included financial targets and a business plan. Under this memorandum, we are required to take all actions necessary (including making dividend payments and share buybacks and cancellations) to return the public funds injected into us by the KDIC, but only to the extent that these actions would not cause a material adverse effect on the contemplated normalization of our operations. To the extent that we fail to perform our obligations, the KDIC is entitled to impose sanctions on our directors and employees, ranging from warnings and wage reductions to suspension or termination of employment. The KDIC can also

order us to take remedial measures against those subsidiaries with whom we have entered into separate memoranda of understanding. See Memoranda of Understanding with our Subsidiaries.

In addition, our directors executed a letter of undertaking, pursuant to which they assumed responsibility for our performance of these obligations.

The business plan included in the memorandum of understanding, which we prepared and which the KDIC approved, set forth the basis on which we were to manage the normalization and integration of our subsidiaries operations and to return the public funds that were injected into them. The business plan also set financial targets for our capital ratio, return on total assets, expense-to-revenue ratio, operating income per employee, non-performing loan ratio and holding company expense ratio. We were required to meet these financial targets on a semi-annual basis. The memorandum of understanding will terminate once the KDIC loses its status as our largest shareholder.

We failed to meet three of the financial targets as of June 30, 2004, which were return on total assets, expense to revenue ratio, and operating income per employee. The KDIC notified us that we could not improve fringe benefits for our employees (including salaries), and ordered us to devise and report to the KDIC a plan to meet those three financial targets. We negotiated with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding and, as a result, we met our financial targets as of December 31, 2004.

Pursuant to the terms of this memorandum of understanding, we entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in April 2005. In addition to the new restructuring measures and financial targets, the plan primarily dealt with ways to increase labor efficiency and to set up a comprehensive financial network for increased synergy among the group members and strengthening our incentive-based management system. We met all of our financial targets under the plan. We entered into a new business normalization plan with the KDIC in April 2007. See Recent Developments with the KDIC.

Memoranda of Understanding with Our Subsidiaries. In July 2001, we entered into separate memoranda of understanding with each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank, each of which included financial targets and a business initiative plan. The plans are substantially identical with respect to each subsidiary, other than with respect to specific financial targets, and each plan is primarily intended to define the respective roles of us and each of our subsidiaries within the context of the financial group as a whole, including our rights and our obligations with respect to each subsidiary. These include each subsidiary s obligations to implement its business initiative plan and to meet the financial targets set forth in the respective memorandum of understanding on a quarterly basis, and certain other matters that we may require from time to time. Each business initiative plan sets forth initiatives related to each subsidiary s operational integration. For example, Hanvit Bank s initial business initiative plan included:

- cooperating with us to develop an integrated management and support system for us to oversee the operations of our subsidiaries;
- disposing of redundant branches and certain subsidiaries;
- adopting U.S. GAAP accounting; and

cooperating with us to consolidate our risk management operations and information technology systems, establish an information technology subsidiary, consolidate our credit card business, dispose of non-performing assets and establish our asset management subsidiary.

Subsequent business initiative plans have required Woori Bank to continue these activities and undertake new initiatives.

Under the terms of each memorandum of understanding, our role within the group includes supervising the implementation of overall management policies and strategies, determining business targets for each subsidiary in order to meet our respective business targets, consulting with each subsidiary with respect to its business plans, budgets, dividend policies and capital increases, evaluating the management of each subsidiary and determining management compensation. The role of each subsidiary includes executing the business targets we set, consulting with us with respect to important management decisions, developing a restructuring execution plan and cooperating with respect to paying consulting fees incurred in connection with developing business strategies.

If we determine that a subsidiary has failed to perform its obligations under its memorandum of understanding, we have the right to impose sanctions on its directors or employees, or to take other remedial measures. Each memorandum of understanding also provides that it will terminate if the subsidiary loses its status as our subsidiary under the Financial Holding Company Act. The memorandum of understanding would not, however, terminate simply if the KDIC were to lose its status as our largest shareholder.

The specified financial targets for 2007 and 2008 that are to be met by Woori Bank, Kyongnam Bank and Kwangju Bank are identical to those imposed by the KDIC on those subsidiaries.

Recent Developments with the KDIC. In April 2007, we and Woori Bank, Kyongnam Bank and Kwangju Bank each entered into a new two-year business normalization plan with the KDIC that included new restructuring measures and financial targets. In addition, the plan primarily dealt with ways to increase labor efficiency and to set up a comprehensive financial network for increased synergy among the group members and strengthening our incentive-based management system. The other terms of the previously agreed memoranda of understanding remain unchanged.

Our two-year business normalization plan sets forth the basis on which we should manage the normalization and integration of our subsidiaries operations as well as return the public funds that were injected into those subsidiaries. The business normalization plan sets forth six financial targets for each quarter of 2007 and 2008 that we are required to meet on a Korean GAAP basis. Our current Korean GAAP targets for each six-month period in 2007 and 2008 are set forth in the following table:

	Six-month period ended			
	2007		2008	
	June	December	June	December
Capital adequacy ratio [(1)]	10.0%	9.6%	9.5%	9.7%
Return on total assets [(2)]	0.6	0.7	0.6	0.7
Expense-to-revenue ratio [(3)]	51.8	50.7	51.8	50.5
Operating income per employee (Won millions) [(4)]	(Won) 350	(Won) 360	(Won) 360	(Won) 370
Non-performing loan ratio [(5)]	0.7%	0.7%	0.7%	0.7%
Holding company expense ratio [(6)]	0.6	0.6	0.6	0.6

(1) For a description of how the capital adequacy ratio is calculated, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

(2) Represents the ratio of net income (excluding proceeds from sales of certain equity securities held by Woori Bank as a result of prior debt-to-equity swaps) to total assets.

(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income before loan loss provisions and general and administrative expenses.

(4) Represents the ratio of adjusted operating income to total number of employees.
(5) Represents the ratio of total credits classified as substandard or below to total credits, net of provisions.
(6) Represents the ratio of the holding company s expenses to adjusted operating income of its subsidiaries.

Each of Woori Bank, Kyongnam Bank and Kwangju Bank also submitted similar two-year business normalization plans that contain similar financial targets that each subsidiary is required to meet. We expect that we and these subsidiaries will be required to enter into new business normalization plans with the KDIC every two years so long as the KDIC remains our largest shareholder.

Table of Contents

Reorganization and Integration Plan

Following our establishment and our acquisition of our subsidiaries, we developed a reorganization and integration plan designed to reorganize the corporate structure of some of our subsidiaries and integrate our operations under a single management structure. As part of this plan, and after receiving approval from the Financial Supervisory Commission for each of these measures:

From December 2001 through February 2002, we restructured Peace Bank of Korea by:

splitting off its commercial banking operations and merging them into Woori Bank;

changing the name of Peace Bank of Korea to Woori Credit Card; and

transferring the credit card operations of Woori Bank to Woori Credit Card. In connection with this transfer, Woori Credit Card acquired all of the existing credit card accounts of Woori Bank but none of the outstanding receivables with respect to such accounts, which remained with Woori Bank.

In March 2002, we made Woori Investment Trust Management a direct subsidiary by acquiring all of its outstanding capital stock from Woori Bank.

In July 2002, we made Woori Securities a direct subsidiary by acquiring a majority of its outstanding capital stock from Woori Bank.

In March 2003, we transferred the credit card operations of Kwangju Bank to Woori Credit Card.

In August 2003, we merged Woori Investment Bank with Woori Bank by exchanging Woori Investment Bank s shares with shares of Woori Bank.

In March 2004, we merged Woori Credit Card with Woori Bank. In connection with this merger, Woori Credit Card spun off and transferred to Kwangju Bank all of the existing credit card accounts (but none of the outstanding receivables with respect to such accounts) that Woori Credit Card had previously acquired from Kwangju Bank.

In June 2004, we acquired the 39.7% interest in Woori Securities that we did not own, and delisted it from the Stock Market Division of the Korea Exchange in July 2004.

In October and December 2004, we acquired an aggregate 27.3% voting interest in LGIS. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee.

In May 2005, we acquired a 90.0% interest in LG Investment Trust Management, or LGITM, from Woori Investment & Securities and merged Woori Investment Trust Management into LGITM. We renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary. In July and September 2005, Woori Asset Management reacquired the remaining 10.0% interest from its minority shareholders. In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse.

Following this transfer, we renamed the entity Woori Credit Suisse Asset Management.

Furthermore, as part of our integration efforts under the plan:

- In 2002, we standardized the logo of certain of our subsidiaries, including Woori Bank, Woori Securities and Woori Investment Trust Management.

- In 2002, Woori Bank streamlined its appropriation procedures for goods and services, and we have implemented these procedures on a group-wide level to reduce costs.

As part of our overall reorganization and integration plan, we completed our business process re-engineering project in November 2004, aimed at enhancing our marketing capabilities, reducing expenses and improving our warning and monitoring system for our credit portfolio. As a result of our implementation of this project, we have been awarded various patents and other intellectual property rights in connection with the project s implementation and structure.

In addition, we have implemented a group-wide, standardized risk management system (except with respect to credit risk management and operational risk management). With respect to the credit risk management systems of our banking subsidiaries, we are currently in the process of implementing various upgrades to standardize such systems based on the Woori Bank system. In 2006, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System, and expect to implement such aspects of the operational risk management system at Woori Investment & Securities by the end of 2007.

Item 4B. ***Business Overview***

Business

We are Korea s first financial holding company, and our operations include the third-largest commercial bank in Korea, in terms of total assets (including loans). Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, capital markets activities, international banking, asset management and bancassurance. We provide a wide range of products and services to our customers, which mainly comprise individuals and small- and medium-sized enterprises, as well as some of Korea s largest corporations. As of December 31, 2006, we had consolidated total assets of (Won)195.1 trillion, consolidated total deposits of (Won)126.5 trillion and consolidated stockholders equity of (Won)10.4 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government s interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Over the past five years, we have succeeded in restructuring our operations by: securing a solid capital base for our banking subsidiaries; improving the quality of our exposure to and our relationships in the large corporate sector; refocusing our lending activities on individual and small- and medium-sized enterprise customers to take advantage of our network of 1,099 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 17 million retail customers; modernizing and strengthening our credit risk review and management capabilities; working to integrate and cross-sell our products and services; and striving to create a customer- and service-oriented culture that measures and rewards performance.

The following chart provides an overview of our structure, including our significant subsidiaries and our ownership of such subsidiaries as of the date of this annual report:

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(1) Woori Investment & Securities is accounted for as an equity method investee.

Table of Contents

As one of the leading financial services groups in Korea, we believe our core competitive strengths include the following:

Financial holding company structure. We believe our financial holding company structure gives us a competitive advantage over commercial banks and unaffiliated financial services providers by:

- allowing us to offer a more extensive range of financial products and services;
- enabling us to share customer information, which is not permitted outside a financial holding company structure, thereby enhancing our risk management and cross-selling capabilities;
- enhancing our ability to reduce costs in areas such as back-office processing and procurement; and
- enabling us to raise and manage capital on a centralized basis.

Strong and long standing relationships with corporate customers. Historically the operations of Woori Bank, our largest subsidiary, concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea s leading corporate groups, and we are the main creditor bank to 13 of the 30 largest Korean corporations. Further enhancing our corporate loan portfolio is our growing ability to lend to small- and medium-sized enterprise customers, which numbered approximately 499,000 as of December 31, 2006.

Large and loyal retail customer base. With respect to our consumer banking operations, we have the second-largest deposit base of any Korean commercial bank, and over 17 million retail customers, representing about half of the Korean adult population. Of these customers, more than half are active customers, meaning that they have an account with us with a positive balance or have transacted business with us at least once during the last six months.

Extensive distribution and marketing network. We serve our customers primarily through the second-largest banking network in Korea, comprising over 1,099 branches and 8,331 ATMs and cash dispensers. Through Woori Bank, we also operate 13 dedicated corporate marketing centers and over 90 relationship managers for our large corporate customers and over 700 relationship professionals stationed at 623 branches for our small- and medium-sized enterprise customers. In addition, we have constructed new Internet and mobile banking platforms to enhance customer convenience, reduce service delivery costs and allow our branch staff to focus on marketing and sales.

Strong capital base. As of December 31, 2006, our consolidated stockholders equity totaled (Won)10.4 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 11.4%. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

Strong and experienced management team. Our management team comprises both experienced managers from our subsidiaries and their predecessor companies as well as leading experienced financial industry professionals who have recently been recruited from outside our group to complement our team. In March 2007, Byong-Won Bahk, a former Vice Minister of Finance and Economy of Korea, assumed the role of our chairman and chief executive officer, which we believe has enhanced the quality of our management team and our corporate governance. We also believe that the extensive experience of many members of our management team in the financial sector will help us to continue to strengthen our operations.

Strategy

Our goal is to become a dynamic, leading full-service provider of financial services and products to corporate and consumer customers in Korea, and we will measure our success based on our ability to increase our profitability and shareholder value. We intend to capitalize on our strong market and financial position, which is the result of our restructuring over the past few years, to further strengthen our capabilities, customer penetration, efficiency and profitability. The key elements of our strategy are to:

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. Since 2002, we have entered into joint venture arrangements with several financial institutions to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans decreased from 9.8% at December 31, 2001 to 1.1% as of December 31, 2006.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized group-wide risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies across all subsidiaries and implemented an advanced credit evaluation system called CREPIA at Woori Bank. Kyongnam Bank and Kwangju Bank currently use credit evaluation systems based on the Woori Bank system. In preparation for the implementation of Basel II, we recently undertook upgrades to our credit risk management systems, including credit evaluation models, collateral management systems and non-performing credit management systems, which were completed in December 2006 for Woori Bank and in April 2007 for Kyongnam Bank and Kwangju Bank.

In addition, we adopted a value at risk, or VaR, monitoring system for managing market risk. We intend to vigorously maintain a manageable risk profile and balance that risk profile with adequate returns. We believe that our continuous focus on upgrading our risk management systems and practices will enable us to maintain our strong asset quality, improve our financial performance and enhance our competitiveness.

Enhance customer profitability through optimization of channel usage, products and services for each customer segment. Our extensive distribution network and wide range of quality products and services has enabled us to serve our customers effectively. However, we intend to further enhance value proposition to our customers by differentiating products and delivery channels based on the distinct needs of different customer segments.

Retail customers. We have segmented our retail customers into four groups: high net worth; mass affluent; middle class; and mass market. We believe we are relatively competitive in our core customer base, which includes mass affluent and middle class customers, and we serve these customers via our team of financial planners in our branches who sell customized higher margin services and products, such as investment advice, mutual funds, insurance, personal loans and securities brokerage services. For our mass market customers, we offer simple, easy-to-understand and relatively more standardized products such as basic deposit and lending products, including mortgage loans, and we encourage the use of alternative distribution channels such as the Internet, phone banking and ATMs by our mass market customers such that we can serve them in a cost efficient manner. We serve our high net worth individuals via branches and dedicated private banking centers staffed with experienced private bankers who offer sophisticated tailored financial services.

Corporate customers. We continuously and vigorously review our portfolio of corporate and small- and medium-sized enterprise customers to refine our database of core accounts and industries in terms of profitability potential. We seek to expand our relationship beyond a pure lending relationship by promoting our foreign exchange, factoring, trade finance and investment banking services to our core small- and medium-sized enterprise customers and cross-selling our investment banking services, derivatives and other risk hedging products, as well as employee retirement products to our core large corporate customers.

Diversify our revenue base with a view to reducing our exposure to interest rate cycles and increasing profitability. Currently, in line with the Korean banking industry, we derive a substantial majority of our revenues from our loan and other credit products. To reduce our traditional reliance on lending as a source of revenue and to increase our profitability, we intend to further diversify our earnings base, in particular by focusing on fee-based services, such as foreign exchange, trade finance and derivatives products, investment banking and advisory investment trust services for our corporate customers and asset management and mutual funds, investment trust products and beneficiary certificates, life and non-life insurance products and securities brokerage services for our retail customers.

In addition, we intend to continue to enter into business alliances with other leading financial service providers so that we can offer a full range of best of class products and services to our targeted customers. We actively evaluate alliances and joint venture opportunities when they arise in order to diversify our revenue stream and provide our customers with a range of sophisticated and tailored products that will complement our existing products and services. We also intend to carefully consider potential acquisitions or other strategic investments that fit within our overall strategy. When considering acquisitions, we will focus on opportunities that (1) supplement the range of products and services we offer and strengthen our existing customer base; (2) enable us to maintain our standard for asset quality and profitability; and (3) provide us with a reasonable return on our investment.

Enhance operational efficiencies to further reduce costs. We intend to improve our operational efficiency and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost distribution channels. We have standardized the risk management operations (except with respect to credit risk management and operational risk management) of Kyongnam Bank and Kwangju Bank with those of Woori Bank. With respect to the credit risk management systems of Kyongnam Bank and Kwangju Bank, we are currently in the process of implementing various upgrades to standardize such systems based on the Woori Bank system. Credit evaluation and approval processes, foreign exchange operations and back-office functions at Woori Bank were removed from branches and centralized at the head office or regional centers in 2003 in order to reduce cost and free up branch staff for marketing.

We believe that the integration of our accounting system will allow us to further eliminate redundant functions and equipment and reducing our long-term expense. In addition, we are continuing our efforts to reduce procurement costs by coordinating and combining procurement activities among our subsidiaries. We believe the completion of the above integration, centralization and procurement projects together with our effort to encourage migration of our mass market customers to low-cost alternative channels will reduce our costs and enhance our operating efficiencies meaningfully.

Strengthen the performance of our management. We are also taking steps to concentrate the personnel management and performance-monitoring functions with respect to our subsidiaries at the holding company level. We believe such enhanced coordination and management will, in turn, improve our overall long-term operating performance by promoting: (1) more efficient deployment of human resources, based on prioritized strategic and operational objectives of the group as a whole; (2) more effective allocation of capital and management of liquidity at our holding company and subsidiaries; (3) greater flexibility to implement coordinated and timely operational changes in response to new market developments or changes in market conditions; and (4) the development of a uniform corporate culture, founded on the Woori corporate identity.

Corporate Banking

We provide commercial banking services to large corporate customers (including government-owned enterprises) and small- and medium-sized enterprises in Korea. Currently, our corporate banking operations consist mainly of lending to and taking deposits from our corporate customers. We also provide ancillary services on a fee basis, such as inter-account transfers, transfers of funds from branches and agencies of a company to its headquarters and transfers of funds from a company s customer accounts to the company s main

account. We provide our corporate banking services predominantly through Woori Bank, although Kyongnam Bank and Kwangju Bank provide similar services to small- and medium-sized enterprises in their respective geographical regions.

The following table sets forth the balances and percentages of our total lending and total deposits represented by our large corporate and small- and medium-sized enterprise customer loans and deposits, respectively, and the number of such customers as of the dates indicated:

	As of December 31,					
	2004		2005		2006	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)					
Loans:						
Small- and medium-sized enterprise	(Won) 40,198	44.4%	(Won) 43,691	42.0%	(Won) 55,144	41.2%
Large corporate	11,600	12.8	13,632	13.1	15,115	11.3
Others [(1)]	3,942	4.4	4,268	4.1	5,280	3.9
Total	(Won) 55,740	61.6%	(Won) 61,591	59.2%	(Won) 75,539	56.4%
Deposits:						
Small- and medium-sized enterprise	(Won) 10,948	12.1%	(Won) 12,812	12.3%	(Won) 18,900	14.9%
Large corporate	18,408	20.4	24,249	23.2	34,626	27.4
Total	(Won) 29,357	32.6%	(Won) 37,061	35.5%	(Won) 53,526	42.3%
Number of borrowers:						
Small- and medium-sized enterprise	160,391		189,052		172,759	
Large corporate	784		1,097		924	

(1) Includes loans to governmental agencies, foreign loans and other corporate loans.

Corporate loans we provide consist principally of the following:

working capital loans, which are loans used for general working capital purposes, typically with a maturity of one year or less, including notes discounted and trade finance; and

facilities loans, which are loans to finance the purchase of materials, equipment and facilities, typically with a maturity of three years or more.

On the deposit-taking side, we currently offer our corporate customers several types of corporate deposit products. These products can be divided into two general categories: demand deposits that have no restrictions on deposits or withdrawals, but which offer a relatively low interest rate; and time deposits from which withdrawals are restricted for a period of time, but offer higher interest rates. We also offer installment deposits, certificates of deposit and repurchase instruments. We offer varying interest rates on our deposit products depending upon the rate of return on our income-earning assets, average funding costs and interest rates offered by other nationwide commercial banks.

Small- and Medium-Sized Enterprise Banking

Small- and medium-sized enterprises generally comprise those companies and personal businesses that we do not classify as large corporate customers. Under the Small and Medium Industry Basic Act of Korea, the general criteria used to define small- and medium-sized enterprises is the number of full-time employees (less than 300), paid-in capital (not more than (Won)8 billion) or sales revenues (not more than (Won)30 billion), depending on the industry, but in each case the number of full-time employees must be less than 1,000. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As a result of our efforts to target this growing market segment, our loan exposure to small- and medium-sized enterprises has increased from 52.3% of our total corporate loans as of December 31, 2001 to 73.0% as of December 31, 2006. As of December 31, 2006, 32.6% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 15.6% were extended to borrowers in the retail and wholesale industry and 6.5% were extended to borrowers in the hotel and transportation industry.

We service our small- and medium-sized enterprise customers primarily through Woori Bank s network of branches and small- and medium-sized enterprise relationship professionals, as well as through the branches and headquarters of Kyongnam Bank and Kwangju Bank. As of December 31, 2006, Woori Bank had stationed one or more relationship professionals at 623 branches, of which 477 were located in the Seoul metropolitan area. The relationship professionals specialize in servicing the banking needs of small- and medium-sized enterprise customers and concentrate their marketing efforts on developing new customers in this segment. As of December 31, 2006, Woori Bank had a total of 712 small- and medium-sized enterprise relationship professionals stationed at its branches.

In addition to increasing our dedicated staffing and branches, our strategy for this banking segment is to identify promising industry sectors and to develop and market products and services targeted towards customers in these sectors. We have also developed in-house industry specialists who can help us identify leading small- and medium-sized enterprises in, and develop products and marketing strategies for, these targeted industries. In addition, we operate customer loyalty programs at Woori Bank for our most profitable small- and medium-sized enterprise customers and provide them with benefits and services such as preferential rates, free seminars and workshops and complementary invitations to cultural events.

Industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises rose from 2002 through 2004, although these delinquency ratios stabilized in 2005 and 2006. As of December 31, 2006, the delinquency ratio for loans to small- and medium-sized enterprise was calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. From January 1, 2007, the delinquency ratio for small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won on a Korean GAAP basis increased from 1.5% as of December 31, 2001 to 2.7% as of December 31, 2004, but decreased to 1.9% as of December 31, 2005 and to 1.4% as of December 31, 2006. On a Korean GAAP basis, we charged off (Won)107 billion of our Won-denominated loans to small- and medium-sized enterprises in 2006. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

Lending Activities. We provide both working capital loans and facilities loans to our small- and medium-sized enterprise customers. As of December 31, 2006, working capital loans and facilities loans accounted for 76.9% and 16.0%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2006, we had approximately 173,000 small- and medium-sized enterprise borrowers.

As of December 31, 2006, secured loans and loans guaranteed by a third party accounted for 57.8% and 15.5%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2006, approximately 70.5% of the secured loans were secured by real estate and 10.4% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of ten years.

When evaluating the extension of working capital loans and facilities loans, we review the creditworthiness and capability to generate cash of the small- and medium-sized enterprise customer. Furthermore, we take

45

corporate guarantees and credit guarantee letters from other financial institutions and use deposits that the borrower has with us or securities pledged to us as collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

The value of any collateral is defined using a formula that takes into account the appraised value of the property, any prior liens or other claims against the property and an adjustment factor based on a number of considerations including, with respect to property, the value of any nearby property sold in a court-supervised auction during the previous five years. We generally revalue any collateral on a periodic basis (every two years for real estate, every year for equipment, every month for unlisted stocks and deposits and every week for stocks listed on a major Korean stock exchange) or if a trigger event occurs with respect to the loan in question.

Pricing. We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. At Woori Bank, lending rates are generally determined using our automated CREPIA system, and we expect to begin determining lending rates at Kyoungnam Bank and Kwangju Bank using similar credit evaluation systems in the second half of 2007. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2006, about two-thirds of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

Large corporate customers include all companies that are either affiliates of the top six *chaebols* in Korea or have assets of (Won)7 billion and are therefore subject to external audit under the External Audit Act of Korea. As a result of our history and development, particularly the history of Woori Bank, we remain the main creditor bank to many of Korea s largest corporate borrowers.

In terms of our outstanding loan balance, as of December 31, 2006, 58.3% of our large corporate loans were extended to borrowers in the manufacturing industry, 11.3% were extended to borrowers in the retail and wholesale industry and 6.7% were extended to borrowers in the hotel and transportation industry.

We service our large corporate customers primarily through Woori Bank s network of dedicated corporate marketing centers and relationship managers. Woori Bank operates 13 dedicated corporate marketing centers, 11 of which are located in the Seoul metropolitan area. Each center is staffed with several relationship managers and headed by a senior relationship manager. Depending on the center, each relationship manager is responsible for large corporate customers that either are affiliates of a particular *chaebol* or operate in a particular industry or region. As of December 31, 2006, Woori Bank had a total of 93 relationship managers who focus on marketing to and managing the accounts of large corporate customers.

Our strategy for the large corporate banking segment is to develop new products and cross-sell our existing products and services to our core base of large corporate customers. In particular, we have been focusing on marketing fee-based products and services such as foreign exchange and trade finance services, derivatives and other risk hedging products, investment banking services and advisory services. We have also been reviewing the credit and risk profiles of our existing customers as well as those of our competitors, with a view to identifying a target group of high-quality customers on whom we can concentrate our marketing efforts. In addition, we are seeking to increase the *chaebol*-, region- and industry-based specialization of our relationship managers, including through the operation of a knowledge management database that allows greater sharing of marketing techniques and skills.

Lending Activities. We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2006, working capital loans and facilities loans accounted for 35.6 % and 4.5%, respectively, of our total large corporate loans.

Loans to large corporate customers may be secured by real estate or deposits or be unsecured. As of December 31, 2006, secured loans and loans guaranteed by a third party accounted for 20.1% and 3.2%, respectively, of our large corporate loans. Since a relatively low percentage of our large corporate loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing or impaired. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. As of December 31, 2006, approximately 58.5% of the secured loans were secured by real estate and approximately 5.8% were secured by deposits. Working capital loans generally have a maturity of one year but may be extended on an annual basis for an aggregate term of three to five years. Facilities loans have a maximum maturity of ten years.

We evaluate creditworthiness and collateral for our loans to corporate customers in essentially the same way as we do for loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Lending Activities.

Pricing. We determine the pricing of our loans to corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Pricing. As of December 31, 2006, about one-third of these loans had interest rates that varied with reference to current market interest rates.

Consumer Banking

We provide retail banking services to consumers in Korea. Our consumer banking operations consist mainly of lending to and taking deposits from our retail customers. We also provide ancillary services on a fee basis, such as wire transfers. While we have historically attracted and held large amounts of consumer deposits through our extensive branch network, our substantial consumer lending growth occurred principally in recent years, in line with the increase in the overall level of consumer debt in Korea. We provide our consumer banking services primarily through Woori Bank, although we service a significant portion of our regional retail banking customers through Kyongnam Bank and Kwangju Bank. See Branch Network and Other Distribution Channels.

Woori Bank classifies its consumer banking customers based on their individual net worth and contribution to our consumer banking operations, into four groups: high net worth; mass affluent; middle class; and mass market. We differentiate our products, services and service delivery channels with respect to these segments and target our marketing and cross-selling efforts based on this segmentation. With respect to the high net worth and mass affluent segments, we have established private banking operations to better service customers in these segments. See Private Banking Operations. With respect to the middle class segment, we intend to use our branch-level sales staff to maximize the overall volume of products and services we provide. With respect to the mass market segment, we have focused on increasing our operating efficiency by encouraging customers to migrate to low-cost alternative service delivery channels, such as the Internet, call centers, mobile banking and ATMs. Kyongnam Bank and Kwangju Bank have segmented their customers into similar groups.

Kyongnam Bank and Kwangju Bank, both regional banks established in their respective regions in 1970 and 1968, are using region-focused strategies to attract customers, market products and create more intimate customer relationships, thereby differentiating themselves from nationwide banks in the same market. Kyongnam Bank is attempting to increase priority customer transaction volume by actively increasing its customer service and management and differentiating services for these customers. Kwangju Bank operates a customer management system that uses diverse strategies to market differentiated products and services to priority customers.

Lending Activities

We offer a variety of consumer loan products to households and individuals. We differentiate our product offerings based on a number of factors, including the customer s age group, the purpose for which the loan is used, collateral requirements and maturity. The following table sets forth the balances and percentage of our total lending represented by our consumer loans as of the dates indicated:

	As of December 31,					
	2004		2005		2006	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentage)					
General purpose household loans	(Won) 14,175	15.7%	(Won) 20,183	19.4%	(Won) 28,117	21.0%
Mortgage and home equity loans	18,127	20.0	20,181	19.4	27,588	20.6
Total	(Won) 32,302	35.7%	(Won) 40,364	38.8%	(Won) 55,705	41.6%

Our consumer loans consist of:

general purpose household loans, which are loans made to customers for any purpose (other than mortgage and home equity loans), and include overdraft loans, which are loans extended to customers to cover insufficient funds when they withdraw funds from their demand deposit accounts with us in excess of the amount in such accounts up to a limit established by us; and

mortgage loans, which are loans made to customers to finance home purchases, construction, improvements or rentals, and *home equity loans*, which are loans made to customers secured by their homes to ensure loan repayment.

For secured loans, including mortgage and home equity loans, we generally lend up to 50% of the collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate, we generally use the appraisal value of the collateral as determined using our automated CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. We generally revalue collateral on a periodic basis. As of December 31, 2006, the revaluation period was every three years for real estate, every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange. From the second half of 2007, we expect to begin revaluing real estate collateral every year, with apartments in particular being revalued every month.

A borrower s eligibility for general purpose household loans is primarily determined by its credit. A borrower s eligibility for our mortgage loans depends on its creditworthiness, the appropriateness of the use of proceeds and our ability to take a first-priority mortgage. A borrower s eligibility for home equity loans is determined by its credit and the value of the property. If the borrower s credit deteriorates, it may be difficult for us to recover the loan. As a result, we review the borrower s creditworthiness, credit scoring, collateral value and third party guarantees when evaluating a borrower.

In light of concerns regarding the potential risks of excessive consumer lending, particularly mortgage and home equity lending, as well as to stabilize the real estate market in Korea, the Korean government has recently adopted more stringent regulations with respect to consumer lending by Korean banks. See Item 3D. Risk Factors Risks relating to government regulation and policy Government regulation of consumer lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our consumer banking operations and Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans.

We also offer a variety of collective housing loans, including loans to purchase property or finance the construction of housing units, loans to contractors used for working capital purposes, and loans to educational establishments and non-profit entities to finance the construction of dormitories. Collective housing loans subject us to the risk that the housing units will not be sold. As a result, we review the probability of the sale of the housing unit when evaluating the extension of a loan. We also review the borrower s creditworthiness and the adequacy of the intended use of proceeds. Furthermore, we take a lien on the land on which the housing unit is to be constructed as collateral. If the collateral is not sufficient to cover the loan, we also take a guarantee from the Housing Finance Credit Guarantee Fund as security.

General Purpose Household Loans

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2006, approximately (Won)19,089 billion, or 67.9% of our general purpose household loans were unsecured, although some of these loans were guaranteed by a third party. Overdraft loans are primarily unsecured and typically have a maturity between one and three years, and the amount of such loans has been steadily declining. As of December 31, 2006, this amount was approximately (Won)4 billion.

Pricing. The interest rates on our consumer loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived internally, which reflects our internal cost of funding, further adjusted to account for the borrower s credit score and our opportunity cost) or a fixed rate that reflects those same costs and expenses, but taking into account interest rate risks. Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our automated CREPIA system, and we expect to begin determining lending rates at Kyoungnam Bank and Kwangju Bank using similar credit evaluation systems in the second half of 2007. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2006, approximately 93.5% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is 30 years for each of Woori Bank and Kyongnam Bank and 33 years for Kwangju Bank. Most of our mortgage and home equity loans have an initial maturity of three years or less. With respect to these loans, we determine the eligibility of borrowers based on the borrower s personal information, transaction history and credit history using Woori Bank s CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund. We receive fee income related to the origination of loans, including fees relating to loan processing and collateral evaluation.

As of December 31, 2006, approximately 90.4% of our mortgage and home equity loans were secured by residential or other property, 1.9% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 7.7% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). Since a comparatively low percentage of our mortgage and home equity loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. One reason that a relatively high percentage of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly

apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2006, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)2,140 billion. For the year ended December 31, 2006, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 53.1%, compared to 56.2% for the year ended December 31, 2005.

Pricing. The interest rates for our mortgage and home equity loans are determined on essentially the same basis as our general purpose household loans, except that for mortgage and home equity loans we place significantly greater weight on the value of any collateral that is being provided to secure the loan. The base rate we use in determining the interest rate for our mortgage and home equity loans is identical to the base rate we use to determine pricing for our general purpose household loans. As of December 31, 2006, approximately 94.3% of our outstanding mortgage and home equity loans had floating interest rates.

Private Banking Operations

In 2002, we launched our private banking operations within Woori Bank, Kyongnam Bank and Kwangju Bank. These operations currently aim to service our high net worth and mass affluent retail customers who individually maintain a deposit balance of at least (Won)30 million with us. As of December 31, 2006, we had over 325,012 customers who qualified for private banking services, representing 1.9% of our total retail customer base. Of our total retail customer deposits of (Won)49,830 billion as of December 31, 2006, high net worth and mass affluent customers accounted for 71.6%.

Through our private bankers, we provide financial and real estate advisory services to our high net worth and mass affluent customers. We also market differentiated investment and banking products and services to these segments, including beneficiary certificates, overseas mutual fund products, specialized bank accounts and credit cards. In addition, we have developed a customer loyalty program for our private banking customers that provides preferential rate and fee benefits and awards. We have also segmented our private banking operations by introducing exclusive private client services for high net worth customers who individually maintain a combined deposit and loan balance of at least (Won)1 billion with us. We believe that our private banking operations will allow us to increase our revenues from our existing high net worth and mass affluent customers, as well as attract new customers in these segments.

Woori Bank has 247 branches that offer private banking services. These branches are staffed by 307 private bankers and almost all of the branches are located in metropolitan areas, including Seoul. Kyongnam Bank and Kwangju Bank operate one and two dedicated private banking centers, respectively. Both banks also offer private banking services through a select number of branches. As of December 31, 2006, 80 private bankers were dispersed over 71 Kyongnam Bank branches and 30 private bankers were dispersed over 30 Kwangju Bank branches that provided private banking services.

We operate two financial products department stores in Seoul, which function as regular branches and through which we offer and market a variety of financial products and services, including credit cards, foreign currency products, bonds, stocks and insurance policies. These department stores employ 8 specialists in the areas of tax, real estate and fund products. They are also dedicated to offering comprehensive wealth management consulting services for high net worth customers. In addition, Woori Bank operates an advisory center in Seoul for its private banking clients, which employs 20 specialists advising on matters of law, tax, real estate, risk assessment and investments.

Table of Contents

Deposit-Taking Activities

As of December 31, 2006, we were the second-largest deposit holder on a combined basis (not adjusted for overlap) among Korean banks, in large part due to our nation-wide branch network. The balance of our deposits from retail customers was (Won)45,375 billion, (Won)51,173 billion and (Won)49,830 billion as of December 31, 2004, 2005 and 2006, respectively, which constituted 50.4%, 49.1% and 39.4%, respectively, of the balance of our total deposits.

We offer diversified deposit products that target different customers with different needs and characteristics. These deposit products fall into five general categories:

time deposits, which generally require a customer to maintain a deposit for a fixed term during which interest accrues at a fixed or floating rate. Early withdrawals require penalty payments. The term for time deposits typically ranges from one month to five years;

demand deposits, which either do not accrue interest or accrue interest at a lower rate than time, installment or savings deposits. The customer may deposit and withdraw funds at any time and, if the deposits are interest-bearing, they accrue interest at a fixed or variable rate depending on the period and/or amount of deposit;

savings deposits, which allow the customer to deposit and withdraw funds at any time and accrue interest at a fixed rate set by us depending upon the period and amount of deposit;

installment deposits, which generally require the customer to make periodic deposits of a fixed amount over a fixed term during which interest accrues at a fixed rate. Early withdrawals require penalty payment. The term for installment deposits range from six months to ten years; and

certificates of deposit, the maturities of which range from 30 days to one year, with a required minimum deposit of between (Won)5 million and (Won)10 million. Interest rates on certificates of deposit vary with the length of deposit and prevailing market rates. Certificates of deposit may be sold at face value or at a discount with the face amount payable at maturity.

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2006:

Time Deposits	Demand Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
54.47%	24.23%	8.88%	0.41%	12.01%

We offer varying interest rates on our deposit products depending on market interest rates as reflected in average funding costs, the rate of return on our interest-earning assets and the interest rates offered by other commercial banks. Generally, the interest payable is the highest on installment deposits and decreases with certificate of deposit accounts and time deposits and savings deposit accounts receiving relatively less interest, and demand deposits accruing little or no interest.

We also offer deposits in foreign currencies and various specialized deposits products, including:

Apartment application time deposits, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Construction Promotion Law. This law sets forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

Apartment application installment savings deposits, which are monthly installment savings programs providing the holder with a preferential right to subscribe for new private apartment units under the

51

Housing Law. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between three and five years and accrue interest at fixed or variable rates depending on the term.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 5%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits).

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay an annual premium of 0.2% of our average deposits and, for the year ended December 31, 2006, our banking subsidiaries paid an aggregate of (Won)146 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 1,099 branches in Korea as of December 31, 2006, which on a combined basis, was the second-most extensive network of branches among Korean commercial banks. In Korea, consumer transactions are generally conducted in cash or with credit cards, and conventional checking accounts generally are not offered. Recently, demand for mutual funds and other asset management products as well as bancassurance products have been rising. These products require extensive sales force and customer interaction to sell, further emphasizing the need for an extensive branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct most of their transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

The following table presents the geographical distribution of our branch network in Korea as of December 31, 2006:

	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Area								
Seoul	412	49.3%	3	2.2%	4	3.2%	419	38.1%
Six largest cities (other than Seoul)	151	18.0	43	30.9	81	65.3	266	24.2
Other	273	32.7	93	66.9	39	31.5	414	37.7
Total	836	100.0%	139	100.0%	124	100.0%	1,099	100.0%

Our Woori Bank branches are concentrated in the Seoul metropolitan area, while our Kyongnam Bank and Kwangju Bank branches are located mostly in the southeastern and southwestern regions of Korea, respectively, providing extensive overall nationwide coverage.

As part of our overall reorganization and integration plan, we completed our business process re-engineering project in November 2004, aimed at enhancing our marketing capabilities, reducing expenses and improving our warning and monitoring system of our credit portfolio. See Item 4A. History and Development of the Company History Reorganization and Integration Plan.

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2006:

	ATMs	Cash Dispensers
Woori Bank	3,667	3,095
Kyongnam Bank	446	438
Kwangju Bank	307	378
Total	4,420	3,911

We also actively promote the use of alternative service delivery channels in order to provide convenient service to customers. We also benefit from customers increasing use of these outlets, as they allow us to maximize the marketing and sales functions at the branch level, reduce employee costs and improve profitability. The following tables set forth information, for the periods indicated, relating to the number of transactions and the fee revenue of our alternative service delivery channels with respect to Woori Bank, Kyongnam Bank and Kwangju Bank.

Woori Bank

	For the year ended December 31,					
	2004		2005		2006	
ATMs [1]:						
Number of transactions (millions)		326		333		369
Fee income (billions of Won)	(Won)	36	(Won)	34	(Won)	39
Telephone banking:						
Number of users		3,739,279		4,131,770		4,675,000
Number of transactions (millions)		119		118		118
Fee income (billions of Won)	(Won)	13	(Won)	14	(Won)	9
Internet banking:						
Number of users		3,892,755		2,793,322		4,331,780
Number of transactions (millions)		651		915		1,368
Fee income (billions of Won)	(Won)	68	(Won)	63	(Won)	58

Kyongnam Bank

	For the year ended December 31,		
	2004	2005	2006

ATMs [(1)]:						
Number of transactions (millions)		52		53		59
Fee income (billions of Won)	(Won)	2	(Won)	2	(Won)	2
Telephone banking:						
Number of users		511,971		568,804		621,807
Number of transactions (millions)		20		22		23
Fee income (billions of Won)	(Won)	2	(Won)	2		2
Internet banking:						
Number of users		242,158		275,875		352,934
Number of transactions (millions)		43		52		69
Fee income (billions of Won)	(Won)	1	(Won)	1		1

Table of Contents

Kwangju Bank

	For the year ended December 31,		
	2004	2005	2006
ATMs [1]:			
Number of transactions (millions)	52	39	63
Fee income (billions of Won)	(Won) 6	(Won) 7	(Won) 7
Telephone banking:			
Number of users	517,370	479,969	530,336
Number of transactions (millions)	18	18	17
Fee income (billions of Won)	(Won) 1	(Won) 2	(Won) 2
Internet banking:			
Number of users	458,125	444,395	517,022
Number of transactions (millions)	33	36	61
Fee income (billions of Won)	(Won) 1	(Won) 1	(Won) 1

(1) Includes cash dispensers.

Most of our electronic banking transactions do not generate fee income as many of those transactions are free of charge, such as balance enquiries, consultations with customer representatives or transfers of money with our banking subsidiaries. This is particularly true for telephone banking services, where a majority of the transactions are balance inquiries or consultations with customer representatives, although other services such as money transfers are also available.

Our automated telephone banking systems offer a variety of services, including inter-account fund transfers, balance and transaction inquiries and customer service enquiries. We operate three call centers that handle calls from customers, engage in telemarketing and assist in our collection efforts.

Our Internet banking services include balance and transaction inquiries, money transfers, loan applications, bill payment and foreign exchange transactions. We expect to increase our Internet banking customer base by focusing largely on our younger customers and those that are able to access the Internet easily (such as office workers) as well as by developing additional Internet-based financial services and products. We are also developing new products to target different types of customers with respect to our Internet banking services, including a service that will enable private banking customers to access their accounts on a website that will provide specialized investment advice. We also offer escrow services and identification authentication services, such as electronic fingerprinting, for Internet transactions.

We also provide mobile banking services to our customers, which is available to all our Internet-registered users. These services allow our customers to complete selected banking transactions through major Korean telecommunications networks using their cellular phones or other mobile device. Since March 2004, we have entered into strategic alliances with SK Telecom, KT Freetel and LG Telecom to provide a wide-range of services through mobile phones, including bill payment services and credit card services. In addition, we entered into strategic alliances with Woori Investment & Securities, SK Securities, Meritz Securities, Hanwha Securities and Dong Yang Investment Bank to provide M-Stock service, which is a service that enables mobile phone users to execute transactions with respect to listed securities in Korea. From July 2004, our electronic bill presentation and payment system was implemented to provide our customers with the ability to pay taxes, maintenance fees and other public fees electronically.

We have also recently introduced our Win-CMS service to corporate customers of Woori Bank, which provides an integrated electronic cash management system and in-house banking platform for such customers.

In the first half of 2007, Woori Bank reduced or waived many of the fees it charges on its banking services, in response to customer demand and to similar measures taken by other commercial banks in Korea. Specifically,

Table of Contents

Woori Bank reduced or waived its fees on fund transfers through its ATMs, and exempted its fees on fund transfers through its mobile banking services through the end of 2007. Woori Bank also waived the fees it charges on the opening of household checking accounts and on the issuance of bankers checks and certain tax-related statements.

Credit Cards

We offer credit card products and services to consumers and corporate customers in Korea. In March 2004, we merged our credit card subsidiary, Woori Credit Card, with Woori Bank. Prior to the merger, we operated our credit card business principally through Woori Credit Card, to which we transferred the credit card operations of Woori Bank in February 2002 and the credit card operations of Kwangju Bank in March 2003. As of December 31, 2006, Woori Bank s market share based on transaction volume was approximately 5.7%, which ranked Woori Bank as the sixth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card.

Our credit card operations benefit from our ownership of a 29.6% equity stake in BC Card, which is co-owned by ten other Korean financial institutions and operates the largest merchant payment network in Korea as measured by transaction volume. This ownership stake allows us to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for our Woori Bank credit card and Kyongnam Bank BC Card operations.

Products and Services

We currently have the following principal brands of credit cards outstanding:

a Woori brand previously offered by Woori Credit Card and currently offered by Woori Bank;

a BC Card brand offered by Kyongnam Bank;

a BC Card brand previously offered by Woori Bank; and

a Visa brand offered by Kwangju Bank.

We issue Visa brand cards under a non-exclusive license agreement with Visa International Service Association and also issue MasterCard and JCB brand cards under a non-exclusive, co-branding agreement with BC Card.

We offer a number of different services to holders of our credit cards. Generally, these services include:

- credit purchase services, which allow cardholders to purchase merchandise or services on credit and repay such credit on a lump-sum or installment basis;

- cash advance services from ATMs and bank branches; and

- credit card loans, which are loans that cardholders can obtain based on streamlined application procedures.

Unlike in the United States and many other countries, where most credit cards are revolving cards that allow outstanding balances to be rolled over from month to month so long as a required minimum percentage is repaid, cardholders in Korea are generally required to pay for their non-installment purchases as well as cash advances within approximately 18 to 58 days of purchase or advance, depending on their payment cycle.

Table of Contents

The following tables set forth certain data relating to our credit card operations as of the dates or for the period indicated:

	As of or for the year ended December 31,								
	2004			2005			2006		
	Woori Card (1)(2)	Kyongnam Bank BC Card	Kwangju Bank Visa Card (3)	Woori Card (1)(2)	Kyongnam Bank BC Card	Kwangju Bank Visa Card (3)	Woori Card (1)(2)	Kyongnam Bank BC Card	Kwangju Bank Visa Card (3)
	(in billions of Won, unless indicated otherwise)								
Number of credit card holders (at year end) (thousands of holders)									
General accounts	4,853	342	296	5,308	417	331	6,402	522	416
Corporate accounts	126	19	10	141	24	16	163	27	21
Total	4,979	361	306	5,449	441	347	6,565	549	437
Active ratio (4)	37.40%	39.13%	81.70%	44.09%	41.81%	50.90%	47.17%	45.35%	57.78%
Credit card interest and fees									
Installment and cash advance interest	(Won) 343	(Won) 16	(Won) 7	(Won) 295	(Won) 14	(Won) 8	(Won) 298	(Won) 12	(Won) 8
Annual membership fees	23	1		11			11		
Merchant fees	137	19	8	189	23	14	241	27	19
Other fees	67	5	4	42	3	3	36	4	2
Total	(Won) 570	(Won) 41	(Won) 19	(Won) 537	(Won) 40	(Won) 25	(Won) 586	(Won) 43	(Won) 29
Charge volumes									
General purchase	(Won) 4,990	(Won) 580	(Won) 397	(Won) 7,785	(Won) 708	(Won) 500	(Won) 9,999	(Won) 935	(Won) 721
Installment purchase	1,179	197	73	1,814	197	78	2,003	212	108
Cash advance	4,453	336	225	5,435	286	206	5,213	255	197
Card loan	2	8		4	3		180	2	
Total	(Won) 10,624	(Won) 1,121	(Won) 695	(Won) 15,038	(Won) 1,194	(Won) 784	(Won) 17,395	(Won) 1,404	(Won) 1,026
Outstanding balances (at year end)									
General purchase	(Won) 524	(Won) 81	(Won) 41	(Won) 642	(Won) 95	(Won) 47	(Won) 799	(Won) 116	(Won) 61
Installment purchase	461	47	20	482	46	23	527	47	26
Cash advance	596	34	25	605	33	21	642	30	19

Card loan	289	9	1	95	3		136	2	
Total	(Won) 1,870	(Won) 171	(Won) 87	(Won) 1,824	(Won) 177	(Won) 91	(Won) 2,104	(Won) 195	(Won) 106
Average outstanding balances									
General purchase	(Won) 568	(Won) 75	(Won) 29	(Won) 632	(Won) 92	(Won) 48	(Won) 798	(Won) 103	(Won) 61
Installment purchase	528	50	17	462	45	20	486	45	25
Cash advance	680	40	21	640	5	24	653	32	21
Card loan	537	17		173	6		110	2	
Total	(Won) 2,313	(Won) 182	(Won) 67	(Won) 1,907	(Won) 178	(Won) 92	(Won) 2,047	(Won) 182	(Won) 107
Delinquency ratios (5)									
Less than 1 month	2.20%	0.84%	1.61%	5.54%	1.87%	3.86%	6.03	1.64	3.84
From 1 month to 3 months	2.30	0.99	1.15	1.20	0.68	0.96	1.70	0.90	0.84
From 3 months to 6 months	3.96	1.36	1.35	1.30	0.71	0.65	1.15	0.71	0.68
Over 6 months	0.42	0.36	4.46	0.36	0.66	0.77	0.15	0.51	0.40
Total	8.88%	3.55%	8.57%	8.40%	3.92%	6.24%	9.03%	3.76%	5.76%
Non-performing loan ratio (6)	4.38%	1.72%	5.81%	1.66%	1.37%	1.42%	1.30%	1.22%	1.08%
Charge-offs (gross)	(Won) 1,027	(Won) 23	(Won) 7	(Won) 168	(Won) 8	(Won) 7	(Won) 80	(Won) 4	(Won) 3
Recoveries	96	3		94	4		74	2	2
Net charge-offs	(Won) 931	(Won) 20	(Won) 7	(Won) 74	(Won) 4	(Won) 7	(Won) 6	(Won) 2	(Won) 1
Gross charge-off ratio (7)	44.40%	12.64%	10.45%	8.81%	3.93%	6.52%	3.91%	2.21%	2.80%
Net charge-off ratio (8)	40.25%	10.99%	10.45%	3.88%	2.25%	6.52%	0.29%	1.10%	0.93%

(1) Consists of credit cards issued by Woori Credit Card, Woori Bank and BC Cards and Visa cards issued through the BC Card consortium.

Table of Contents

(2) From April 2004, excludes the credit card accounts previously acquired from Kwangju Bank (but not the outstanding credit card receivables relating to such accounts) which were spun off and transferred back to Kwangju Bank by Woori Credit Card in March 2004 prior to Woori Credit Card s merger with Woori Bank.

(3) From April 2004, includes the former Kwangju Bank credit card accounts (but not the outstanding credit card receivables relating to such accounts) which were spun off and transferred back to Kwangju Bank by Woori Credit Card in March 2004 prior to Woori Credit Card s merger with Woori Bank.

(4) Represents the ratio of accounts used at least once within the last 12 months to total accounts as of the end of the relevant year.

(5) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 2.9% of our credit card receivables as of December 31, 2006.

(6) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2004, 2005 and 2006:

	As of December 31,		
	2004	2005	2006
	(in billions of Won)		
Restructured loans	(Won) 43	(Won) 62	(Won) 21

If such restructured loans had been included, the non-performing loan ratio for our credit card operations would have been as follows:

	As of or for the year ended December 31,								
	2004			2005			2006		
	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card
	(in billions of Won, unless indicated otherwise)								
Non-performing loan ratio	6.33%	5.02%	6.63%	2.23%	1.79%	1.67%	1.30%	1.22%	1.08%

(7) Represents the ratio of gross charge-offs for the year to average outstanding balances for the year. Under U.S. GAAP, our charge-off policy is to charge off balances which are more than six months past due (including previously delinquent credit card balances restructured into loans that are more than six months overdue from the point at which the relevant balances were so restructured), except for those balances with a reasonable probability of recovery. The following table shows, as of the dates indicated, the outstanding amounts of restructured loans greater than six months past due from the initial delinquency date:

	As of December 31,		
	2004	2005	2006
	(in billions of Won)		
Restructured loans greater than six months past due from the initial delinquency date and not charged off	(Won) 49	(Won) 6	(Won) 2

(8) Represents the ratio of net charge-offs for the year to average outstanding balances for the year.

We offer a diverse range of credit card products within our various brands. Factors that determine which type of card a particular cardholder may receive include net worth, age, location, income level and the particular programs or services that may be associated with a particular card. Targeted products that we offer include:

- cards that offer additional benefits, such as frequent flyer miles and award program points that can be redeemed for services, products or cash;

- gold cards, platinum cards and other preferential members cards that have higher credit limits and provide additional services;

corporate and affinity cards that are issued to employees or members of particular companies or organizations; and

revolving credit cards and cards that offer travel services and insurance.

Credit card use in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the financial crisis and as a result of Korean government initiatives promoting the use of credit cards. For example, the government requires merchants to accept credit cards in order to prevent tax evasion by ensuring proper disclosure of transactions, and provides tax benefits to businesses that accept credit cards. For consumers, there is also a tax deduction for certain amounts spent using credit cards. However, there has been significant concern in Korea regarding the high levels of credit card usage (including cash advances) and the deteriorating asset quality of the credit card portfolios of Korean financial institutions. In response to such concerns, the Korean government has increased its regulatory oversight of the credit card industry. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio and Supervision and Regulation Credit Card Business.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans commencing in 2002. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of (Won)1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a downpayment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2006, the total amount of our restructured loans was (Won)21 billion (which also included revolving loans and installment loans). Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances. In addition, in line with industry practice, we have in the past agreed with selected cardholders to replace their delinquent credit card balances with cash advances that are rolled over from month to month. We discontinued this practice commencing in September 2003.

Payments and Charges

Revenues from our credit card operations consist principally of cash advance charges, merchant fees, interest income from credit card loans, interest on late and deferred payments, and annual membership fees paid by cardholders.

Each cardholder is allocated an aggregate credit limit in respect of all cards issued under his or her account and each month. We advise each cardholder of the credit limit relating to the cards in his or her monthly billing statement. Credit limits in respect of card loans are established separately. We conduct ongoing monitoring of all cardholders and accounts, and may reduce the credit limit or cancel an existing cardholder s card based on current economic conditions, receipt of new negative credit data from third party sources or the cardholder s score under the credit risk management systems we use to monitor their behavior, even if the cardholder continues to make timely payments in respect of his or her cards. We consider an account delinquent if the payment due is not received on the first monthly payment date on which such payment was due, and late fees are immediately applied. Late fee charges and computation of the delinquency period are based on each outstanding unpaid transaction or installment, as applicable. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.

Payments on amounts outstanding on our credit cards must be made (at the cardholder s election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly

installments over a fixed term from two months to 36 months, in the case of installment purchases. Cardholders may prepay installment purchases at any time without penalty. Payment for cash advances must be made on a lump sum basis. Payments for card loans must be made on an equal principal installment basis over a fixed term from three months up to a maximum of 36 months, up to a maximum loan amount of (Won)20 million.

No interest is charged on lump-sum purchases that are paid in full by the monthly payment date. For installment purchases, we charge a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, we currently apply an interest rate between approximately 10.9% and 19.5% per annum as determined by the cardholder s application system score. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval Credit Card Approval Process and Credit Review and Monitoring Credit Card Review and Monitoring.

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 9.2% to 27.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a commission of (Won)800 to (Won)1,000 per withdrawal.

We also charge a basic annual membership fee of (Won)2,000 to (Won)5,000 for regular cards, (Won)10,000 for gold cards and (Won)120,000 for platinum cards. The determination of the annual fee is based on the type of card and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori Card (which can only be used in Korea and is not affiliated with Visa or MasterCard), Woori Christian Card and Hyundai Home Shopping Woori Card, we will waive membership fees if customers charge above a certain amount.

Commencing in July 2006, we outsourced the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2006, we charged merchants an average of 2.4% of their respective total transaction amounts. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

We engage in capital markets activities for our own account and for our customers. Our capital markets activities include securities investment and trading, derivatives trading, asset securitization services, investment banking and securities brokerage.

In September 2004, our board approved a plan to buy a significant voting interest in LG Investment & Securities Co., or LGIS, which had been previously held by LG Card, in order to expand our brokerage and investment banking businesses. The plan provided for our purchase of approximately 26 million shares of LGIS for approximately (Won)298 billion, or approximately (Won)11,500 per share. This purchase was completed in December 2004 and was part of the financial rescue package for LG Card. Prior to such purchase, in October 2004, we purchased seven million shares of LGIS in the Korean stock market for approximately (Won)55 billion. As a result, as of December 31, 2004, we owned a 27.3% voting interest in LGIS, which became an equity method investee.

In January 2005, the board of Woori Securities, a wholly-owned subsidiary, approved a plan to reduce its capital by 42.5% prior to its merger with LGIS. Pursuant to the capital write-down plan, Woori Securities cancelled 14 million of its outstanding shares for (Won)11,000 per share. As a result, Woori Securities, total shares outstanding amounted to approximately 20 million shares immediately after the capital write-down.

Table of Contents

In March 2005, we merged Woori Securities into LGIS, and received 0.654 LGIS share for one Woori Securities share. We also renamed the surviving entity Woori Investment & Securities, which became an equity method investee and, as of the date of the merger, had a capital base of (Won)786 billion, 151 branches within Korea and in other countries and approximately 2,500 employees. The merger was approved by the shareholders of each of Woori Securities and LGIS in extraordinary meetings of shareholders of the respective companies in March 2005. We currently own a 35.0% voting interest in Woori Investment & Securities. As of December 31, 2006, Woori Investment & Securities had consolidated total assets of (Won)12,845 billion, consolidated total liabilities of (Won)10,726 billion and consolidated total shareholders equity of (Won)2,119 billion, on a Korean GAAP basis. For the year ended December 31, 2006, Woori Investment & Securities generated consolidated revenues of (Won)2,691 billion and consolidated net income of (Won)233 billion, on a Korean GAAP basis.

Securities Investment and Trading

Through Woori Bank and Woori Investment & Securities (which is an equity method investee and whose operations are therefore not included in the figures presented below for 2005 and 2006) and, to a lesser extent, Kyongnam Bank and Kwangju Bank, we invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2006, our investment portfolio, which consists of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)43,010 billion and represented 22.0% of our total assets.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, including the KDIC, local governments or government-invested enterprises, and debt securities issued by financial institutions. As of December 31, 2006, we held debt securities with a total book value of (Won)39,861 billion, of which:

- held-to-maturity debt securities accounted for (Won)8,614 billion, or 21.6%;
- available-for-sale debt securities accounted for (Won)25,788 billion, or 64.7%; and
- trading debt securities accounted for (Won)5,459 billion, or 13.7%.

Of these amounts, as of December 31, 2006, debt securities issued by the Korean government and government agencies amounted to (Won)7,039 billion, or 81.7%, of our held-to-maturity debt securities, (Won)11,729 billion, or 45.5%, of our available-for-sale debt securities, and (Won)1,592 billion, or 29.2%, of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the Stock Market Division or the KOSDAQ Market Division of the Korea Exchange. As of December 31, 2006:

- equity securities in our available-for-sale portfolio had a book value of (Won)1,605 billion, or 5.7%, of our available-for-sale portfolio; and
- equity securities in our trading portfolio had a book value of (Won)636 billion, or 10.2%, of our trading portfolio.

Funds that are not used for lending activities are used for investment and liquidity management purposes, including investment and trading in securities. See Assets and Liabilities Securities Investment Portfolio.

Table of Contents

The following tables show, as of the dates indicated, the gross unrealized gains and losses within our investment securities portfolio and the amortized cost and fair value of the portfolio by type of investment security:

	As of December 31, 2004			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,308	(Won) 57	(Won) 7	(Won) 6,358
Corporate	3,308	77	3	3,382
Financial institutions	1,976	13		1,989
Mortgage backed securities	65			65
Foreign governments	50			50
Subtotal	11,707	147	10	11,844
Equity securities	199	204	2	401
Beneficiary certificates (1)	58	3	4	57
Total available-for-sale securities	(Won) 11,964	(Won) 354	(Won) 16	(Won) 12,302
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 7,567	(Won) 318		(Won) 7,885
Corporate	213	34		247
Financial institutions	561	6		567
Mortgage backed securities	20			20
Foreign governments	45			45
Total held-to-maturity securities	(Won) 8,406	(Won) 358		(Won) 8,764

	As of December 31, 2005			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 11,108	(Won) 15	(Won) 18	(Won) 11,105
Corporate	3,571	45	31	3,585
Financial institutions	2,449	9	5	2,453
Mortgage backed securities	92			92
Foreign governments	49			49
Subtotal	17,269	69	54	17,284
Equity securities	191	449		640

Beneficiary certificates [1]	359	6		365
Total available-for-sale securities	(Won) 17,819	(Won) 524	(Won) 54	(Won) 18,289
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 8,188	(Won) 31	(Won) 60	(Won) 8,159
Corporate	73	9		82
Financial institutions	1,274	1	7	1,268
Mortgage backed securities	48			48
Foreign governments	55	1		56
Total held-to-maturity securities	(Won) 9,638	(Won) 42	(Won) 67	(Won) 9,613

Table of Contents

	As of December 31, 2006			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 11,742	(Won) 13	(Won) 26	(Won) 11,729
Corporate	8,340	40	120	8,260
Financial institutions	5,681	3	9	5,675
Mortgage backed securities	78			78
Foreign governments	46			46
Subtotal	25,887	56	155	25,788
Equity securities	398	1,207		1,605
Beneficiary certificates (1)	750	34	3	781
Total available-for-sale securities	(Won) 27,035	(Won) 1,297	(Won) 158	(Won) 28,174
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 7,039	(Won) 14	(Won) 31	(Won) 7,022
Corporate	32	2		34
Financial institutions	1,415	2	5	1,412
Mortgage backed securities	45		1	44
Foreign governments	83			83
Total held-to-maturity securities	(Won) 8,614	(Won) 18	(Won) 37	(Won) 8,595

(1) Beneficiary certificates are instruments that are issued by and represent an ownership interest in an investment trust. Investment trusts, which operate like mutual funds in the United States, are managed by investment trust management companies and invest in portfolios of securities and/or other financial instruments, such as certificates of deposit. See Asset Management Investment Trust Management. Beneficiary certificates give the holder beneficial rights to both the relevant investment trust and the trust property in which the investment trust has invested.

For a discussion of our risk management policies with respect to our securities trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Trading Activities.

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers, primarily through Woori Bank and Woori Investment & Securities (which is an equity method investee and whose operations are therefore not included in the figures presented below for 2005 and 2006). Our trading volume was (Won)52,432 billion in 2004, (Won)71,149 billion in 2005 and (Won)103,589 billion in 2006, respectively. Our net trading revenue from derivatives and foreign exchange spot contracts for the years ended December 31, 2004, 2005 and 2006 was (Won)77 billion, (Won)150 billion and (Won)85 billion, respectively.

We provide and trade a number of derivatives products principally through sales or brokerage accounts for our customers, including:

- interest rate swaps, options and futures, relating principally to Won interest rate risks;
- index futures and options, relating to stock market fluctuations;
- cross currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;
- foreign exchange forwards, swaps, options and futures, relating to foreign exchange risks; and
- credit derivatives, which we provide to financial institutions that wish to hedge existing credit exposures or take on credit exposure to generate revenue.

Table of Contents

Our regional banking subsidiaries, Kyongnam Bank and Kwangju Bank, are not active with respect to derivatives trading aside from foreign exchange forwards.

Our derivatives operations focus on addressing the needs of our corporate clients to hedge their risk exposure and on hedging our risk exposure resulting from such client contracts. We also engage in derivatives trading activities to hedge the interest rate and foreign currency risk exposure that arises from our own assets and liability positions. Most of these hedging-purpose derivatives contracts, however, do not qualify for hedge accounting under U.S. GAAP and are consequently treated as trading derivatives and the changes in value are reflected in our income statements for the relevant periods. In addition, we engage in proprietary trading of derivatives and arbitrage through Woori Investment & Securities, such as index options and futures within our regulated open position limits, for the purpose of generating capital gains.

The following shows the estimated fair value of derivatives and foreign exchange spot contracts we held or had issued for trading purposes as of the dates indicated:

	As of December 31,					
	2004		2005		2006	
	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 3	(Won) 4	(Won) 13	(Won) 13	(Won) 1	(Won) 2
Foreign exchange derivatives	1,227	1,236	609	535	1,043	931
Interest rate derivatives	168	169	120	189	160	292
Equity derivatives	22	218	73	602	142	471
Credit derivatives [(1)]		1			2	
Other derivatives					5	5
Total	(Won) 1,420	(Won) 1,628	(Won) 815	(Won) 1,339	(Won) 1,353	(Won) 1,701

(1) Our total exposure under credit derivatives outstanding was US$265 million as of December 31, 2006. In connection with such credit derivatives, we accept credit exposure with respect to foreign currency-denominated corporate debt instruments held by counterparties by guaranteeing payments under such instruments, subject to our overall credit limits with respect to the applicable issuers.

In April 2003, Woori Bank entered into an agreement with Macquarie Bank, an Australian investment bank, pursuant to which the latter will provide fee-based technical assistance and advisory services to us, including in the area of risk management and trading systems, in connection with our plans to further develop our equity derivatives business. This agreement will expire on September 4, 2008 or earlier, depending on certain conditions.

In August 2006, Woori Bank entered into another agreement with Macquarie Bank, pursuant to which Macquarie Bank will provide operational support and cooperation to Woori Bank in the area of commodity derivatives trading, in connection with Woori Bank s plans to develop its commodities derivatives business.

In June 2006, Woori Investment & Securities entered into an alliance with ABN AMRO to share financial techniques and financial systems relating to the over-the-counter derivatives market.

For a discussion of our risk management policies with respect to our derivatives trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Trading Activities.

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank, Woori F&I and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2006, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)9,155 billion and generated total fee income under Korean GAAP of approximately (Won)68 billion in connection with such transactions. The securities issued in asset securitization transactions are sold mainly to institutional investors buying through Korean securities firms.

Investment Banking

We engage in investment banking activities in Korea through Woori Bank and Woori Investment & Securities. Through Woori Investment & Securities, we underwrite equity and debt securities offerings in the Korean capital markets, either as lead manager or a member of an underwriting syndicate and provide mergers and acquisitions and financial advisory services. In 2006, Woori Investment & Securities generated investment banking revenue under Korean GAAP of approximately (Won)20 billion, consisting primarily of underwriting fee income from securities offerings. In addition, through Woori Bank, we provide project finance and financial advisory services, in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and mergers and acquisitions advisory services. In 2006, Woori Bank generated investment banking revenue of approximately (Won)233 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services.

We believe that significant opportunities exist for us to leverage our existing base of large corporate and small- and medium-sized banking customers to cross-sell investment banking services, especially in light of our significantly enhanced investment banking capabilities and reputation as a result of our acquisition and integration of LGIS. We intend to expand our investment banking operations to take advantage of these opportunities, with a view to increasing our fee income and further diversifying our revenue base.

Securities Brokerage

We provide securities brokerage services through Woori Investment & Securities. Our activities include brokerage services relating to stocks, futures, options and debt instruments (such as commercial paper). As of December 31, 2006, Woori Investment & Securities had 125 branches. We also provide securities brokerage services through the Internet and through our home trading system software platform via the following systems: W-on Trading, W-on Stox and X-Trade, Web-Trading and Q-Trading. In 2006, Woori Investment & Securities generated fee income under Korean GAAP of approximately (Won)325 billion through its securities brokerage activities.

International Banking

Primarily through Woori Bank, we engage in various international banking activities, including foreign exchange services and dealing, import and export-related services, offshore lending, syndicated loans and foreign currency securities investment. These services are provided primarily to our domestic customers and overseas subsidiaries and affiliates of Korean corporations. We also raise foreign currency funding through our international banking operations. In addition, we provide commercial banking services to retail and corporate customers in select overseas markets.

64

The table below sets forth certain information regarding our foreign currency assets and borrowings:

	As of December 31,		
	2004	2005	2006
	(in millions of US$)		
Total foreign currency assets	US$ 14,135	US$ 14,634	US$ 14,902
Foreign currency borrowings			
Call money	162	109	962
Secured borrowings	407		
Long-term borrowings	3,604	3,314	5,690
Short-term borrowings	4,462	5,505	7,736
Total foreign currency borrowings	US$ 8,635	US$ 8,929	US$ 14,388

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2006.

Business Unit [(1)]	Location
Subsidiaries	
Woori America Bank	United States
P.T. Bank Woori Indonesia	Indonesia
Woori Global Markets Asia Limited	Hong Kong
Branches, Agencies and Representative Offices	
London Branch	United Kingdom
Tokyo Branch	Japan
Singapore Branch	Singapore
Beijing Branch	China
Hong Kong Branch	China
Shanghai Branch	China
Shenzhen Branch	China
Bahrain Branch	Bahrain
Dhaka Branch	Bangladesh
Hanoi Branch	Vietnam
Ho Chi Minh City Branch	Vietnam
Gaeseong Industrial Complex Branch	North Korea
New York Agency	United States
Los Angeles Agency	United States
Moscow Representative Office	Russia

(1) Does not include subsidiaries and branches in liquidation or dissolution.

In addition, Woori America Bank currently operates 17 branches in New York, New Jersey, Maryland, Virginia, Pennsylvania and California and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US$944 million as of December 31, 2006 and net income of US$13 million in 2006. In September 2003, Woori America Bank acquired and merged with Panasia Bank N.A. in the United States from National Penn Bancshares Inc. for US$34.5 million in cash. Panasia Bank was established in 1993 as the first Asian-American owned lender in the United States and was one of the largest banks specializing in service to the

Korean-American community in the eastern United States.

The principal activities of our overseas branches and subsidiaries, all of which are branches and subsidiaries of Woori Bank, are providing trade financing and local currency funding for Korean companies and Korean nationals operating in overseas markets as well as servicing local customers and providing foreign exchange services in conjunction with our headquarters. On a limited basis, our overseas branches and subsidiaries also engage in the investment and trading of securities of foreign issuers.

In July 2002, Woori Bank entered into a memorandum of understanding with Bank of China to undertake a joint marketing effort to corporate clients who are expanding their business potential in the region, as well as to promote information exchange between the two institutions. In October 2004, Woori Bank entered into a similar strategic alliance with China Minsheng Bank. In April 2006, Woori Bank entered into a memorandum of understanding with the Bank of East Asia to promote information exchange and cooperation between the two institutions with respect to various financial products.

Asset Management

In May 2005, we purchased a 90.0% direct ownership interest in LGITM from LGIS, at a purchase price of (Won)73 billion. We subsequently merged Woori Investment Trust Management, our wholly-owned asset management subsidiary, into LGITM and renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary. In July and September 2005, Woori Asset Management reacquired the remaining 10.0% interest from its minority shareholders. In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse. Following this transfer, we renamed the entity Woori Credit Suisse Asset Management.

Trust Management Services

Money Trusts. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we offer money trust products to our customers and manage the funds they invest in money trusts. The money trusts we manage are generally trusts with a fixed life that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We currently offer the following types of money trust products:

- *retirement trusts*, which invest funds received from corporations or organizations and manage these funds until they are withdrawn to pay retirement funds to a corporation s officers or employees or an organization s members;

- *pension trusts*, which invest funds received until pension benefits are due to be disbursed to a pension beneficiary; and

- *specified money trusts*, which invest cash received as trust property at the direction of the trustors and, once the trust matures, disburse the principal and any gains to the trust beneficiaries.

We also offer other types of money trusts that have a variety of differing characteristics with respect to, for example, maturities and tax treatment.

Under Korean law, the assets of our money trusts are segregated from our assets and are not available to satisfy the claims of our creditors. We are, however, permitted to maintain deposits of surplus funds generated by trust assets. Except for specified money trusts, we have investment discretion over all money trusts, which are pooled and managed jointly for each type of trust. Specified money trusts are established on behalf of individual customers, typically corporations, which direct our investment of trust assets.

We receive fees for our trust management services consisting of:

basic fees that are based upon a percentage, ranging between 0.5% and 2%, of the net asset value of the assets under management; and

performance fees that are based upon the investment performance of the trust.

We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Money trust management is currently the largest source of our fee income. Fees that we received for our trust management services (including those fees related to property trust management services, described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to (Won)40 billion in 2004, (Won)13 billion in 2005 and (Won)24 billion in 2006.

66

Table of Contents

For some of the money trusts we manage, we have guaranteed the principal amount of an investor s investment as well as a fixed rate of interest. We no longer offer new money trust products where we guarantee both the principal amount and a fixed rate of interest. We continue to offer pension-type money trusts that provide a guarantee of the principal amount of an investor s investment.

The following table shows the balances of our money trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we do not consolidate performance trusts on which we do not guarantee principal or interest, due to the fact that the assets invested are not our assets but customer assets and that our customers bear the risk of loss:

	As of December 31,		
	2004	2005	2006
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 13	(Won) 14	(Won) 15
Principal guaranteed trusts	1,934	1,896	1,912
Performance trusts	3,465	4,330	7,572
Total	(Won) 5,412	(Won) 6,241	(Won) 9,499

The trust assets we manage consist principally of investment securities and loans made from the trusts. The investment securities consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. As of December 31, 2006, under Korean GAAP, our money trusts had invested in securities with an aggregate book value of (Won)6,349 billion, which accounted for 66.8% of our money trust assets. Debt securities accounted for (Won)3,121 billion of this amount.

Our money trusts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust management companies. As of December 31, 2006, equity securities held by our money trusts amounted to (Won)563 billion on a Korean GAAP basis, which accounted for approximately 8.9% of our money trust assets. Of this amount, (Won)315 billion was from specified money trusts and the remaining (Won)248 billion was from money trusts over which we had investment discretion.

Loans made by our money trusts are similar in type to the loans made by our banking operations. As of December 31, 2006, under Korean GAAP, our money trusts had made loans in the aggregate principal amount of (Won)100 billion (excluding loans to our banking operations of (Won)1,772 billion), which accounted for approximately 0.4% of our money trust assets. Because we act as trustee, loans by money trusts are made at our discretion and are subject to the same credit approval process as loans from our banking operations. As of December 31, 2006, substantially all of the loans from our money trusts were collateralized or guaranteed.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained in our trust accounts, followed by basic fees from that money trust and funds from our banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. In 2006, we made no such payments.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products, took effect in January 2004. Under that law, unless a bank qualified as an asset management company by July 2004, it cannot offer unspecified money trust products (except under certain limited circumstances). See Supervision and Regulation Trust Business. As a result, commencing in July 2004, we ceased offering unspecified money trust products through our banking subsidiaries and transferred the unspecified money trust operations of those subsidiaries (other than outstanding balances, which they will continue to manage until the withdrawal of the relevant money trust deposits by customers) to Woori Asset Management (currently named Woori Credit Suisse Asset Management).

Table of Contents

Property Trusts. Through Woori Bank and Kyongnam Bank, we also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly receivables (including those securing asset-backed securities), real property and securities, but can also include movable property such as artwork. Under these arrangements, we render escrow or custodial services for the property in question and collect fees in return.

In 2006, our property trust fees ranged from 0.05% to 1.0% of total assets under management, depending on the type of trust account product. As of December 31, 2006, the balance of our property trusts totaled (Won)15,397 billion.

The property trusts also are not consolidated within our U.S. GAAP financial statements.

Investment Trust Management

Through Woori Credit Suisse Asset Management, we offer investment trust products to our customers and manage the assets invested by them in investment trusts. The investment trust products we offer generally take the form of beneficiary certificates evidencing an ownership interest in a particular investment trust. We currently offer various different types of investment trust products, including:

- *equity funds*, where equity securities or equity-linked securities consist of 60% or more of their assets;
- *fixed income funds*, where fixed income securities consist of 60% or more of their assets;
- *hybrid funds*, the assets of which include both fixed income and equity securities with no minimum requirement to hold either type of security;
- *money market funds*, which invest mostly in short-term financial products, such as call loans, commercial paper, certificates of deposit and short-term treasury notes and corporate bonds; and
- *alternative investment funds*, which invest in derivatives, real estate, commodities, special assets, funds of funds and other assets.

The investment trusts we manage are generally trusts with no fixed term that allow investors to share in the investment performance of the trust in proportion to the amount of their investment in the trust. We have investment discretion over all investment trusts. Investment trusts calculate the value of their assets each day, and any change in the overall valuation of their assets will be reflected in the price of their beneficiary certificates. To the extent such a trust does have a maturity date, at that time the trust will disburse principal and any return on investment based on the price of their beneficiary certificates. In addition to investment trust products, we provide our institutional clients with various investment advisory and discretionary asset investment services.

The following table shows the balances of our investment trusts by type as of the dates indicated as determined in accordance with Korean GAAP. Under U.S. GAAP, we do not consolidate investment trusts due to the fact that the assets invested are not our assets but customer assets:

	As of December 31,		
	2004	2005	2006
	(in billions of Won)		
Equity funds	(Won) 185	(Won) 736	(Won) 1,152
Bond funds	2,742	3,263	1,446
Hybrid funds	1,163	1,311	3,169
Money market funds	1,881	6,770	8,938
Alternative investment funds	368	882	1,845
Total	(Won) 6,339	(Won) 12,962	(Won) 16,550

Table of Contents

We receive fees for our investment trust management services consisting of management fees in connection with establishing, operating and managing the investment trust, asset management fees and related advisory fees. These fees are calculated by multiplying the daily net asset value of the trust by a percentage provided in the trust documentation. Fees accrue on a daily basis and are paid out as expenses periodically.

Fees from our investment trust management services amounted to (Won)17 billion in 2004, (Won)19 billion in 2005 and (Won)28 billion in 2006.

Although our current customer base consists mainly of institutional investors, we have been seeking to market our investment trust products to retail customers through our consumer banking network. We believe that significant opportunities exist for us to enhance our asset management skills and risk asset management techniques through our joint venture arrangement with Credit Suisse, and to leverage our existing base of consumer banking customers to cross-sell our investment trust products. We intend to expand our investment trust management operations to take advantage of these opportunities, with a view to increasing our fee income and further diversifying our revenue base. We also intend to focus on the development of new products tailored to particular customer segments and the enhancement of sales and distribution capabilities through each of our marketing channels to meet our customers needs.

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank, we act as a trustee for approximately 1,182 securities investment trusts. We receive a fee for acting as a trustee and generally perform the following functions:

- receiving payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company; and
- in certain cases, authenticating beneficiary certificates issued by investment trust management companies and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2006, our fee income from such services was (Won)8 billion.

Other Businesses

Merchant Banking

Prior to August 2003, we engaged in merchant banking operations through Woori Investment Bank. Effective August 1, 2003, we merged Woori Investment Bank with Woori Bank, which now engages in such operations. The merchant banking services we currently offer include principally the following:

- commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital;
- factoring financing, which entails purchasing at a discount trade receivables held by companies to supply them with capital;
- payment guarantees, which entail issuing guarantees in respect of notes in return for fees; and
- lending, which entails making medium- to long-term Won-denominated and foreign currency-denominated loans to customers.

Through Woori Investment Bank, we have historically focused on short-term financing, lease financing and international financing and foreign currency exchange activities. Short-term financing was in particular main focus of the predecessor entities of Woori Investment Bank. However, these short-term financing activities caused many merchant banks (including the predecessor entities of Woori Investment Bank) to become insolvent during the Korean financial crisis. Since then, short-term financing volumes have declined greatly, with only commercial paper associated with large corporations circulating or discounted on the market.

The lease financing market has also steadily declined since the Korean financial crisis as companies have reduced their investments in facilities, although we believe that this market could improve if conditions in the Korean economy improve. The international financing and foreign exchange market also has not fully recovered since the Korean financial crisis. In particular, market conditions have not been favorable for foreign exchange borrowing due to low credit ratings for Korean companies and the availability of low-cost financing in the domestic market. In addition, we continue to experience difficulty in collecting loans from emerging market debtors, including in Southeast Asia, as they are still experiencing financial difficulties.

As a result, we have been concentrating on improving the asset quality of our merchant banking operations by disposing of non-performing assets through asset sales to KAMCO and to various special purpose companies formed as a result of joint ventures with several financial institutions. See Assets and Liabilities Asset Quality of Loans Sales of Non-Performing Loans.

Management of National Housing Fund

In November 2002, we were selected to manage the operations of the National Housing Fund, together with two other financial institutions. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2006, outstanding housing loans from the National Housing Fund amounted to approximately (Won)55 trillion, of which we originated approximately (Won)8 trillion. The activities of the National Housing Fund are funded primarily by the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, and by subscription savings deposits held at the National Housing Fund.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. In 2006, we received total fees of approximately (Won)41 billion for managing the National Housing Fund compared to approximately (Won)30 billion in 2005.

Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we currently market a wide range of bancassurance products in connection with a revision to existing regulations in 2003 that liberalized the bancassurance market in Korea. The revision has allowed us to offer insurance products commencing in September 2003. In 2006, we generated fee income of approximately (Won)111 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. Woori Bank has entered into bancassurance marketing arrangements with 20 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Korea Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plan to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base.

Table of Contents

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity will make long-term and strategic investments in buyout target companies, as well as actively involving itself in their management. This would involve identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those investees so as to enhance their enterprise value. We expect Woori Private Equity s operations to provide us with greater investment opportunities and a new source of business for other related segments, especially corporate banking. In July 2006, Woori Private Equity established Woori Private Equity Fund, the size of which is approximately (Won)344 billion, as a limited partnership in which Woori Private Equity serves as a general partner.

Competition

We compete with other financial institutions in Korea, including principally nationwide and regional Korean commercial banks and branches of foreign banks operating in Korea. In addition, in particular segments such as credit cards, asset management, securities brokerage and bancassurance, our subsidiaries compete with specialized financial institutions focusing on such segments. Some of these specialized financial institutions are significantly larger in terms of asset size and customer base and have greater financial resources than our subsidiaries.

Competition in the Korean financial market has been and is likely to remain intense. In particular, in the area of our core banking operations, most Korean banks have been targeting retail customers and small- and medium-sized enterprises as they scale back their exposure to large corporate borrowers, contributing to some extent to the asset quality deterioration in consumer and small- and medium-sized loans, and have been focusing on developing fee income businesses, including bancassurance, as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to the asset quality problems recently experienced with respect to credit card receivables.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004 and the acquisition of Korea First Bank by Standard Chartered Bank in April 2005. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. See Item 3D. Risk Factors Risks relating to competition.

Assets and Liabilities

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities on a consolidated basis.

Loan Portfolio

As of December 31, 2006, the balance of our total loan portfolio was (Won)133,740 billion, a 28.4% increase from (Won)104,130 billion as of December 31, 2005. As of December 31, 2006, 90.1% of our total loans were Won-denominated loans and 9.9% of our total loans were denominated in other currencies. Of the (Won)13,245 billion of foreign currency-denominated loans as of that date, approximately 26.7% represented foreign loans provided by Woori Bank to offshore entities and individuals. Woori Bank makes foreign loans primarily through its overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

Except where we specify otherwise, all loan amounts stated below are before deduction of allowance for loan losses.

Loan Types

The following table presents loans by type as of the dates indicated. Totals include past due amounts:

	As of December 31,					
	2002	2003	2004	2005	2006	2006
	(in billions of Won)					(%)
Domestic:						
Corporate:						
Commercial and industrial	(Won) 33,717	(Won) 40,642	(Won) 42,445	(Won) 47,232	(Won) 58,766	44.0%
Lease financing	310	222	132	75	35	0.0
Trade financing	6,562	6,922	7,073	7,172	8,027	6.0
Other commercial	5,466	4,254	4,270	4,727	5,263	3.9
Total corporate	46,055	52,040	53,920	59,206	72,091	53.9
Consumer:						
General purpose household [1]	23,315	26,758	27,618	34,906	51,637	38.6
Mortgage	2,451	3,599	4,684	5,458	4,068	3.0
Total consumer	25,766	30,357	32,302	40,364	55,705	41.6
Credit cards	6,418	3,964	2,128	2,092	2,405	1.8
Total domestic	78,239	86,361	88,350	101,662	130,201	97.3
Foreign:						
Corporate:						
Commercial and industrial	(Won) 1,811	(Won) 1,884	(Won) 1,730	(Won) 2,316	(Won) 3,341	2.5
Trade financing	96	63	104	76	112	0.1
Total corporate	1,907	1,947	1,834	2,392	3,453	2.6
Consumer	80	84	305	76	86	0.1
Total foreign	1,987	2,031	2,139	2,468	3,539	2.7
Total gross loans	80,226	88,392	90,489	104,130	133,740	100.0
Less: Unearned income	(40)	(26)	(14)	(7)	(5)	0.0
Total loans	(Won) 80,186	(Won) 88,366	(Won) 90,475	(Won) 104,123	(Won) 133,735	100.0%

(1) Includes home equity loans.

Loan Concentrations

Each of our banking subsidiaries limits its total exposure to any single borrower as required by Korean regulations and pursuant to its internal policies. Woori Bank determines this limit based on the borrower s credit rating provided by the bank s CREPIA system. Woori Bank may adjust this limit if it would otherwise exceed the limit imposed by Korean regulations. See Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to any Individual Customer and Major Shareholder. Kyongnam Bank limits total exposure to any single borrower or *chaebol* to 10% of the sum of its Tier I and Tier II capital (less any capital deductions). Kwangju Bank limits its total exposure to 10% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single borrower and 15% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single *chaebol*.

Table of Contents

20 Largest Exposures by Borrower

As of December 31, 2006, our exposures to our 20 largest borrowers totaled (Won)27,521 billion and accounted for 14.6% of our total exposures. The following table sets forth our total exposures to those borrowers as of that date:

	Loans								
Company (credit rating) [1]	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees and acceptances	Credit derivatives	Total exposures	Collateral	Amounts classified as substandard or below [2]
				(in billions of Won)					
The Bank of Korea [3]	(Won) 200	(Won)	(Won)	(Won) 10,327	(Won)	(Won)	(Won) 10,527	(Won)	(Won)
Korea Deposit Insurance Corporation [3]	26			2,592			2,618		
Korea Development Bank (AAA)	38			2,263		9	2,310	45	
Industrial Bank of Korea (AAA)	489		3	1,414			1,906		
Samsung Electronics Co., Ltd. (AAA)	32	1,119	112		1		1,264		
SH Corporation (A1)	30			1,001			1,031		
Kookmin Bank (AAA)	135		9	835			979	103	
LG Card Co., Ltd (A1)	34	20	632	113	1		800		
Kia Motors Corporation (A1)	2	523		122	50		697	25	
National Federation of Fisheries Cooperatives (AAA)	0	233		391			624	150	
Standard Chartered Korea First Bank Limited (AAA)	41			544			585		
Hyundai Heavy Industries Co., Ltd. (A1)	47	1	6		492		546		
Hyosung Group (A2-)	62	175	2	123	134		496	152	
Korea Exchange Bank (AAA)	14	51	5	424			494		
LG Electronics Inc. (A1)	124	331	2	18			475		
Kumho Industrial Co.,Ltd. (A3-)	0	155		310	2		467	141	
Hankook Tire Co., Ltd. (AA-)	88	289	2		72		451	6	
Hanwha Corporation (A3+)	243	92	2	20	72		429	51	
LG Chem, Ltd. (A1)	23	306	1	50	40		420		
National Agricultural Cooperative		11		387	4		402		

Federation (AAA)									
Total	(Won) 1,628	(Won) 3,306	(Won) 776	(Won) 20,934	(Won) 868	(Won) 9	(Won) 27,521	(Won) 673	(Won)

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2006: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings, as S&P and Moody s credit ratings were unavailable.

(2) Classification is based on the Financial Supervisory Commission s asset classification criteria.

(3) Credit ratings unavailable.

As of December 31, 2006, nine of these top 20 borrowers were companies belonging to the 30 largest *chaebols* in Korea. See Item 3D. Risk Factors Risks relating to our corporate credit 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.

Exposure to Chaebols

As of December 31, 2006, 10.6% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2006, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

	Loans									
Chaebol	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Credit derivatives	Total exposures	Collateral	Amount classified as precautionary or below [1]	Amounts classified as substandard or below [1]
	(in billions of Won)									
Samsung	(Won) 448	(Won) 1,628	(Won) 318	(Won) 129	(Won) 167	(Won)	(Won) 2,690	(Won)	(Won)	(Won)
Hyundai Motors	565	1,377	17	333	237		2,529	94	1	
LG	269	1,191	11	404	228		2,103	195		
Kumho Asiana	428	716	5	469	76		1,694	648		
Hanhwa	482	205	2	184	134		1,007	365		
Doosan	100	477	10	41	119		747	129		
Hyosung	128	277	2	174	160		741	152	1	
SK	231	145	33	171	127	23	730	25	183	1
CJ	145	362	5	67	60		639	39		
Hankook Tire	107	435	2		92		636	19		
Total	(Won) 2,903	(Won) 6,813	(Won) 405	(Won) 1,972	(Won) 1,400	(Won) 23	(Won) 13,516	(Won) 1,666	(Won) 185	(Won) 1

(1) Classification is based on the Financial Supervisory Commission s asset classification criteria.

Loan Concentration by Industry

The following table shows, as of December 31, 2006, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of total lending:

	Aggregate corporate loan balance	Percentage of total corporate loan balance

	(in billions of Won)		
Industry			
Manufacturing	(Won)	27,985	37.1%
Retail and wholesale		10,735	14.2
Hotel, leisure or transportation		4,793	6.3
Government and government agencies		117	0.2
Construction		7,259	9.6
Financial and insurance		2,365	3.1
Other		22,285	29.5
Total	(Won)	75,539	100.0%

74

Table of Contents

Loan Concentration by Size of Loans

The following tables show, as of December 31, 2006, the aggregate balances of our loans by outstanding loan amount:

Corporate

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)100 million	(Won) 6,051	4.5%
Over (Won)100 million to (Won)1 billion	24,197	18.1
Over (Won)1 billion to (Won)10 billion	13,276	10.0
Over (Won)10 billion to (Won)50 billion	9,533	7.1
Over (Won)50 billion to (Won)100 billion	3,646	2.7
Over (Won)100 billion	2,063	1.5
Sub-total	58,766	43.9
Lease financing loans		
Up to (Won)100 million		
Over (Won)100 million to (Won)1 billion	14	
Over (Won)1 billion to (Won)10 billion	16	0.1
Over (Won)10 billion to (Won)50 billion		
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	30	0.1
Trade financing loans		
Up to (Won)100 million	1,388	1.0
Over (Won)100 million to (Won)1 billion	3,461	2.6
Over (Won)1 billion to (Won)10 billion	2,502	1.9
Over (Won)10 billion to (Won)50 billion	676	0.5
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	8,027	6.0
Other commercial loans		
Up to (Won)100 million	705	0.5
Over (Won)100 million to (Won)1 billion	1,871	1.4
Over (Won)1 billion to (Won)10 billion	1,414	1.1
Over (Won)10 billion to (Won)50 billion	692	0.5
Over (Won)50 billion to (Won)100 billion	279	0.2
Over (Won)100 billion	302	0.2
Sub-total	5,263	3.9
Foreign commercial and industrial loans		

Up to (Won)100 million	105	0.1
Over (Won)100 million to (Won)1 billion	392	0.3
Over (Won)1 billion to (Won)10 billion	1,630	1.2
Over (Won)10 billion to (Won)50 billion	1,037	0.8
Over (Won)50 billion to (Won)100 billion	177	0.1
Over (Won)100 billion		
Sub-total	3,341	2.5
Foreign trade financing loans		
Up to (Won)100 million	17	
Over (Won)100 million to (Won)1 billion	24	
Over (Won)1 billion to (Won)10 billion	41	0.1
Over (Won)10 billion to (Won)50 billion	30	
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	112	0.1

Table of Contents

Consumer

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
General purpose household loans [1]		
Up to (Won)10 million	4,076	3.0
Over (Won)10 million to (Won)50 million	13,384	10.0
Over (Won)50 million to (Won)100 million	12,024	9.0
Over (Won)100 million to (Won)500 million	19,772	14.8
Over (Won)500 million to (Won)1 billion	1,736	1.3
Over (Won)1 billion	645	0.5
Sub-total	51,637	38.6
Mortgage loans		
Up to (Won)10 million	27	
Over (Won)10 million to (Won)50 million	897	0.7
Over (Won)50 million to (Won)100 million	1,435	1.1
Over (Won)100 million to (Won)500 million	1,617	1.2
Over (Won)500 million to (Won)1 billion	92	0.1
Sub-total	4,068	3.1
Credit cards		
Up to (Won)10 million	2,127	1.6
Over (Won)10 million to (Won)50 million	197	0.1
Over (Won)50 million to (Won)100 million	20	
Over (Won)100 million	61	
Sub-total	2,405	1.7
Foreign consumer loans		
Up to (Won)10 million	2	
Over (Won)10 million to (Won)50 million		
Over (Won)50 million to (Won)100 million	2	
Over (Won)100 million to (Won)500 million	42	0.1
Over (Won)500 million to (Won)1 billion	16	
Over (Won)1 billion	24	
Sub-total	86	0.1
Total	(Won) 133,735	100.0%

[1] Includes home equity loans.

76

Table of Contents

Maturity Analysis

The following table sets out, as of December 31, 2006, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed are before deduction of allowance for loan losses:

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in billions of Won)			
Domestic				
Corporate				
Commercial and industrial	(Won) 41,357	(Won) 13,955	(Won) 3,454	(Won) 58,766
Lease financing	21	9	0	30
Trade financing	8,003	24	0	8,027
Other commercial	3,468	934	861	5,263
Total corporate	52,849	14,922	4,315	72,086
Consumer				
General purpose household [1]	21,491	12,527	17,619	51,637
Mortgage	2,077	1,046	945	4,068
Credit cards	2,218	186	1	2,405
Total consumer	25,786	13,759	18,565	58,110
Total domestic	78,635	28,681	22,880	130,196
Foreign				
Corporate				
Commercial and industrial	1,631	983	727	3,341
Lease financing				
Trade financing	112			112
Other commercial				
Total corporate	1,743	983	727	3,453
Consumer:				
Other consumer	2	1	83	86
Total foreign	1,745	984	810	3,539
Total loans	(Won) 80,380	(Won) 29,665	(Won) 23,690	(Won) 133,735

(1) Includes home equity loans.

A significant portion of our loans with maturities of one year is renewed annually. We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Under our internal guidelines, we may extend working capital loans on an annual basis for an aggregate term of three years. Those guidelines also allow us to extend consumer loans for another term on an annual basis for an aggregate term of up to three years.

Interest Rates

The following table shows, as of December 31, 2006, the total amount of our loans due after one year, that have fixed interest rates and variable or adjustable interest rates:

	Domestic	Foreign	Total
		(in billions of Won)	
Fixed rate [1]	(Won) 6,195	(Won) 242	(Won) 6,437
Variable or adjustable rates [2]	45,366	1,552	46,918
Total loans	(Won) 51,561	(Won) 1,794	(Won) 53,355

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

Table of Contents

For additional information regarding our management of interest rate risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Asset and Liability Management.

Asset Quality of Loans

Loan Classifications

The Financial Supervisory Commission generally requires Korean financial institutions to analyze and classify their assets by quality into one of five categories for Korean GAAP reporting purposes. In making these classifications, we take into account a number of factors, including the financial position, profitability and transaction history of the borrower, and the value of any collateral or guarantee taken as security for the extension of credit. This classification method, and our related provisioning policy, is intended to fully reflect the borrower s capacity to repay.

The following is a summary of the asset classification criteria we apply for corporate and consumer loans, based on the asset classification guidelines of the Financial Supervisory Commission. Credit card receivables are subject to classification based on the number of days past due, as required by the Financial Supervisory Commission. We also apply different criteria for other types of credits such as loans to the Korean government or to government-related or controlled entities, certain bills of exchange and certain receivables.

Asset Classification	Characteristics
Normal	Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers that: based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or are in arrears for one month or more but less than three months.
Substandard	Either: credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or

the portion that we expect to collect of total loans (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.

Table of Contents

Asset Classification	Characteristics
Doubtful	Credits exceeding the amount we expect to collect of total credits to customers that: based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or have been in arrears for three months or more but less than twelve months.
Estimated Loss	Credits exceeding the amount we expect to collect of total credits to customers that: based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; have been in arrears for twelve months or more; or have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

Loan Loss Provisioning Policy

We maintain our allowance for loan losses at a level that we believe is sufficient to absorb estimated probable losses inherent in our loan portfolio. We base our allowance for loan losses on our continuing review and evaluation of the loan portfolio, and it represents our best estimate of probable losses that we have incurred as of the balance sheet date. We evaluate the risk characteristics of the loan portfolio and consider factors such as past loss experience and the financial condition of the borrower to determine the level of the allowance. We charge the allowance for loan losses against income in the form of a provision for loan losses. Adjustments to the allowance due to changes in measurement of impaired loans are recognized through the provision for loan losses. Loan losses, net of recoveries, are charged directly to the allowance.

We consider a commercial loan impaired when, after consideration of current information and events, it is probable that we will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the loan. We consider the following types of loans to be impaired:

- loans classified as substandard or below according to the Financial Supervisory Commission s asset classification guidelines;

loans that are 30 days or more past due;

loans to companies that have received a warning from the Korean Federation of Banks indicating that companies have exhibited difficulties in making timely payments of principal and interest; and

loans that are troubled debt restructurings as defined under U.S. GAAP.

Once we have identified a loan as impaired, we generally measure the value of the loan based on 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. If the measured value is less than the book value of the loan, we establish a specific allowance for the amount deemed

Table of Contents

uncollectible. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, we consider the fair value of the collateral or the guarantee payment in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, we determine the amount of impairment by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that are considered impaired, we determine the fair value by reference to observable market prices, when available.

We also establish allowances for losses for corporate loans that have not been individually identified as impaired, consumer loans and credit card balances. These allowances are based on the level of our expected loss, which is the product of default probability and loss severity. We establish the expected loss related to corporate loans that we do not deem to be impaired based on historical loss experience, which depends on the internal credit rating of the borrower, characteristics of the lending product and relevant collateral. We establish the expected loss related to consumer loans and credit card balances based on historical loss experience generally for a period of one year, which depends on delinquency and collateral.

In connection with the restructuring of delinquent credit card balances into loans, we do not make any adjustments to our historical loss experience as we incorporate historical loss experience based on the initial date on which the balances became overdue. We separately calculate historical loss experience for both the period from the time when the balances became overdue up to the date when the balances are restructured and after the balances have been restructured as loans.

For leases, we establish allowances using the same method we use to establish allowances for losses for corporate loans.

For credit-related commitments, we establish allowances using the same method we use to establish allowances for our loans.

The actual amount of credit losses we incur may differ from our loss estimates as a result of changing economic conditions, changes in industry or geographic concentrations, or other factors. We monitor the differences between our estimated and actual incurred credit losses, and we undertake detailed periodic assessments of both individual loans and credit portfolios, the models we use to estimate incurred credit losses in those portfolios and the adequacy of our overall allowances.

Non-Accrual Loans and Past Due Accruing Loans

Except as discussed below, we generally cease to accrue interest on a loan and classify that loan as non-accruing when principal or interest payments become one day past due. Any unpaid interest previously accrued on these loans is reversed from income, and thereafter we recognize interest only to the extent we receive payments. In applying payments on delinquent loans, we first apply payments to the delinquent interest outstanding, then to non-delinquent interest, and then to the outstanding loan balance until the loan is paid in full. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current.

Foregone interest is the interest due on non-accrual loans that we have not accrued in our books. If we had not foregone interest on our non-accrual loans, we would have recorded gross interest income of (Won)308 billion, (Won)211 billion and (Won)216 billion for 2004, 2005 and 2006, respectively, on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year. The actual amount of interest income on those loans included in our net income for 2004, 2005 and 2006 was (Won)149 billion, (Won)109 billion and (Won)102 billion, respectively.

The category accruing but past due one day includes loans that are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by deposits or on which there are financial guarantees from the Korean government, the

Table of Contents

KDIC or certain financial institutions. The following table shows, as of the dates indicated, certain information relating to our non-accrual and past due loans.

	As of December 31,														
	2002			2003			2004			2005			2006		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	T
	(in billions of Won)														
ed for rual															
te	(Won) 1,889	(Won) 91	(Won) 1,990	(Won) 1,732	(Won) 143	(Won) 1,875	(Won) 1,202	(Won) 2	(Won) 1,204	(Won) 1,026	(Won) 11	(Won) 1,037	(Won) 1,001	(Won) 6	(Wo
er (1)	2,506		2,506	2,336		2,336	1,763		1,763	1,485	1	1,486	1,560		
l	4,405	91	4,496	4,068	143	4,211	2,965	2	2,967	2,511	12	2,523	2,561	6	
g hich ually one ore l or															
te	270	1	271	26		26	28		28	34		34	23	0	
er	36		36	16		16	20		20	47		47	29	0	
l	306	1	307	42		42	48		48	81		81	52		
	(Won) 4,711	(Won) 92	(Won) 4,803	(Won) 4,110	(Won) 143	(Won) 4,253	(Won) 3,013	(Won) 2	(Won) 3,015	(Won) 2,592	(Won) 12	(Won) 2,604	(Won) 2,613	(Won) 6	(Wo

(1) Includes credit card balances of (Won)702 billion, (Won)1,304 billion, (Won)216 billion, (Won)95 billion and (Won)60 billion as of December 31, 2002, 2003, 2004, 2005 and 2006, respectively.

(2) Includes accruing loans that are contractually past due 90 days or more in the amount of (Won)4 billion, (Won)4 billion, (Won)3 billion and (Won)2 billion as of December 31, 2003, 2004, 2005 and 2006, respectively.

Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated. In line with industry practice, we have restructured a portion of our delinquent credit card balances as loans and substituted cash advances commencing in 2002. We discontinued the practice of providing such substituted cash advances commencing in September 2003.

	Normal	1-3 months	3-6 months	More than	Total

As of December 31,	Amount	%	Amount past due	%	Amount past due	%	6 months Amount past due	%	Amount	%
2002	(Won) 77,676	96.9%	(Won) 684	0.8%	(Won) 421	0.5%	(Won) 1,405	1.8%	(Won) 80,186	100.0%
2003	86,194	97.5	623	0.7	956	1.1	593	0.7	88,365	100.0
2004	88,697	98.1	541	0.6	547	0.6	690	0.7	90,475	100.0
2005	102,833	98.8	335	0.3	325	0.3	630	0.6	104,123	100.0
2006	132,603	99.1	229	0.2	263	0.2	640	0.5	133,735	100.0

Table of Contents

Credit Exposures to Companies in Workout, Restructuring, Corporate Reorganization or Composition

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower s credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and expired on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applied to more than 420 financial institutions in Korea, which included commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the KDIC and KAMCO. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower were required to participate in a creditors committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes secured debt restructuring) finalized the borrower s restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan was also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagreed with the final restructuring plan approved by the creditors committee had the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting creditor financial institution failed to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts would be set up to resolve the matter. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio. The Korean government presented an amendment bill to extend the effective term of the Corporate Restructuring Promotion Act until December 31, 2010 to the National Assembly of Korea. The amendment bill not only is designed to extend the validity of the Corporate Restructuring Promotion Act but also contains other amendments which provide, among others, (i) that the Financial Supervisory Commission may request that creditor financial institutions defer from exercising their creditor rights and (ii) relaxations of some of the restrictions previously imposed on the creditor financial institutions disposition of their shares acquired by debt-to-equity swaps. The amendment bill is still pending at the National Assembly of Korea. As a temporary measure until the reenactment of the Corporate Restructuring Promotion Act, certain financial institutions, including us, have recently decided to adopt and implement a voluntary agreement similar to the restructuring procedures under the Corporate Restructuring Promotion Act, beginning at the end of March 2007, to facilitate corporate restructuring of companies with borrowings of not less than (Won)50 billion.

Korean law has also provided for corporate reorganization proceedings, which are court-supervised procedures to rehabilitate an insolvent company. Under these procedures, a restructuring plan is adopted at a meeting of interested parties, including creditors of the company. That restructuring plan is subject to court approval.

The Korean Debtor Recovery and Bankruptcy Law was enacted on March 31, 2005 and became effective on March 31, 2006. Accordingly, each of the Company Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act was abolished. The Korean Debtor Recovery and Bankruptcy Law contains notable changes to previously existing corporate reorganization and composition procedures, including nullification of the composition procedures previously in place and the modification of reorganization procedures, whereby existing management would continue to oversee a company s reorganization process (except that the court would be empowered to appoint a third-party receiver under certain circumstances). Notwithstanding this legislative change, any composition or company reorganization proceedings that were pending at the time the new law became effective will continue to be governed under the Composition Act and the Company Reorganization Act, respectively.

A portion of our loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2006, (Won)280 billion, or 0.2%, of our total loans and debt securities were in workout or restructuring. This included (Won)239 billion of loans to and debt securities of large corporate borrowers in workout or restructuring and (Won)4 billion of loans to and debt securities of small- and medium-sized enterprises in workout or restructuring, which represented 85.4% and 0.2% of our loans to and debt securities of such customers and 14.6% and less than 0.1% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout or restructured loans. At Woori Bank, for example, the Credit Management and Collection Center manages its workout and restructured loans. Upon approval of a workout or restructuring plan, a credit exposure is

Table of Contents

initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout or restructuring, corporate reorganization or composition, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

The following table shows, as of December 31, 2006, our ten largest exposures that were in workout or restructuring, including composition or court receivership:

Company (credit rating) [1]	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Credit Derivatives	Total Exposures	Collateral [2]	Amounts Classified as Substandard or Below [3]	Allowance
					(in billions of Won)					
Daewoo Electronics Corp. (C)	(Won) 47	(Won) 50	(Won)	(Won)	(Won) 10	(Won) 0	(Won) 107	(Won) 50	(Won) 104	(Won) 55
Hyundai Corporation (CCC)		52			4		56			11
Saehan Industries Inc. (B)	12	15					27			
Saehan Media Co., Ltd (C)		15			9		24	19	1	
Boe Hydis Technology Co., Ltd. (D)	2	18					20		20	11
Hyundai IT Corp. (A3-)	20						20		20	15
Ilhwawool Corp. (A3-)	11						11	10	11	
EZ Digital Co., Ltd [4]		7					7	7		
Haegang Fenster Co., Ltd [4].	7						7	5	2	2
VK Corporation (A3-)	3						3		3	3
Total	(Won) 102	(Won) 157			(Won) 23		(Won) 282	(Won) 91	(Won) 161	(Won) 97

(1) Credit rating as of December 31, 2006, from one of the following Korean credit agencies: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.
(2) The value of collateral is appraised based on future cash flow and observable market price.
(3) Classification is based on the Financial Supervisory Commission s asset classification criteria.
(4) Credit rating unavailable.

Troubled Debt Restructurings

The following table presents, as of the dates indicated, our loans that are troubled debt restructurings as defined under U.S. GAAP. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

As of December 31,

	2002			**2003**			**2004**			**2005**			**2006**		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
								(in billions of Won)							
Loans not included in non-accrual and past due loans which are classified as troubled debt restructurings	(Won) 1,286	(Won) 2	(Won) 1,288	(Won) 363	(Won) 3	(Won) 366	(Won) 44	(Won) 3	(Won) 47	(Won) 314		(Won) 314	(Won) 251		(Won) 251

Table of Contents

For 2006, interest income that we would have recorded under the original contract terms of restructured loans amounted to (Won)17 billion, of which we reflected (Won)14 billion as interest income for 2006.

Potential Problem Loans

As of December 31, 2006, we had (Won)1,676 billion of corporate loans that were current as to payment of principal and interest but where we had serious doubt as to the borrower s ability to comply with repayment terms in the near future. These amounts were classified as impaired and therefore included in our calculation of specific loan loss allowance under U.S. GAAP. Potential problem loans are precautionary loans that we determine, through our internal loan review process, require close management and increased provisioning due to the borrower s financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business.

Other Problematic Interest-Earning Assets

We have in the past received certain other interest-earning assets in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. However, as of December 31, 2006, we had no such assets.

Non-Performing Loans

Non-performing loans are defined as those loans that are classified as substandard or below based on the Financial Supervisory Commission s asset classification criteria. See Loan Classifications above. The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	As of December 31,				
	2002	2003	2004	2005	2006
	(in billions of Won, except percentages)				
Total non-performing loans	(Won) 3,576(1)	(Won) 2,594(2)	(Won) 2,071(3)	(Won) 1,369(4)	(Won) 1,354(5)
As a percentage of total loans	4.5%	2.9%	2.3%	1.3%	1.0%

(1) Excludes (Won)269 billion and (Won)512 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that were classified as normal or precautionary.

(2) Excludes (Won)635 billion and (Won)2 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that were classified as normal or precautionary.

(3) Excludes (Won)189 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

(4) Excludes (Won)46 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

(5) Excludes (Won)15 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

The above amounts do not include loans classified as substandard or below that we or any of our predecessor entities sold to KAMCO or to special purpose companies established as a result of our joint ventures with several financial institutions. See Sales of Non-Performing Loans Joint Ventures.

We have also issued securities backed by non-performing loans and other assets. Some of these transactions involved transfers of loans through securitizations where control of the loans has not been surrendered and, therefore, are not treated as sale transactions. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings. These securities are included in the table above. See Funding Secured Borrowings.

Table of Contents

The following table sets forth, as of the dates indicated, our total non-performing loans by type of loan:

	As of December 31,									
	2002		2003		2004		2005		2006	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic										
Corporate Commercial and industrial	(Won) 1,768	49.5%	(Won) 1,046	40.3%	(Won) 1,118	54.0%	(Won) 802	58.6%	(Won) 783	57.9%
Lease financing										
Trade financing	463	12.9	202	7.8	228	11.0	76	5.6	102	7.5
Other commercial	751	21.0	193	7.4	92	4.5	59	4.3	65	4.8
Total corporate	2,982	83.4	1,441	55.5	1,438	69.5	937	68.4	950	70.2
Consumer										
General purpose household [1]	145	4.0	302	11.6	383	18.5	281	20.5	308	22.7
Mortgage	10	0.3	94	3.6	115	5.6	97	7.1	54	4.0
Total consumer	155	4.3	396	15.2	498	24.1	378	27.6	362	26.7
Credit cards	352	8.5	673	26.0	126	6.1	46	3.4	33	2.4
Total domestic	3,439	96.2	2,509	96.7	2,062	99.7	1,361	99.4	1,345	99.3
Foreign										
Corporate										
Commercial and industrial	135	3.8	84	3.3						