WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 25, 2008
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As filed with the Securities and Exchange Commission on June 25, 2008

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, 2007

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)

Byung-Ho Park

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

Telephone No.: +82-2-2125-2110

Facsimile No.: +82-2-2125-2137

(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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.

805,988,800 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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

x U.S. GAAP ¨ IFRS ¨ Other

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

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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, 2003, 2004, 2005, 2006 and 2007 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 31, 2007, which was (Won)935.8 = US$1.00.

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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;
- foreign exchange rates;

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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 MANAGEMENT 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, 2003, 2004, 2005, 2006 and 2007 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.

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Consolidated Income Statement Data

	Year ended December 31,					
	2003	2004 [1]	2005 [1]	2006	2007	2007 [2]
	(in billions of Won except per share data)					(in millions of US$ except per share data)
Interest and dividend income	(Won) 7,520	(Won) 7,235	(Won) 7,209	(Won) 9,365	(Won) 12,192	US$ 13,029
Interest expense	4,117	3,809	3,727	5,465	7,656	8,181
Net interest income	3,403	3,426	3,482	3,900	4,536	4,848
Provision for loan losses	2,313	652	308	509	219	234
Provision for credit-related commitments (reversal of provision) [3]	201	43	(39)	107	(54)	(58)
Other provision (reversal of provision) [4]	102	(6)	17	36	36	39
Non-interest income	1,435	1,953	1,916	2,424	2,222	2,374
Non-interest expense	2,636	2,809	2,933	3,098	3,467	3,705
Income tax expense (benefit)	254	(392)	366	620	837	895
Minority interest	4	1	7	3	11	12
Income (loss) before extraordinary items	(672)	2,272	1,806	1,951	2,242	2,395
Extraordinary gain		63				
Net income (loss)	(672)	2,335	1,806	1,951	2,242	2,395
Other comprehensive income (loss), net of tax	97	107	106	477	(146)	(156)
Comprehensive income (loss)	(Won) (575)	(Won) 2,442	(Won) 1,912	(Won) 2,428	(Won) 2,096	US$ 2,239
Per common share data:						
Net income (loss) per share basic	(Won) (871)	(Won) 3,001	(Won) 2,245	(Won) 2,420	(Won) 2,781	US$ 2.97
Income (loss) per share before extraordinary items basic	(871)	2,920	2,245	2,420	2,781	2.97
Extraordinary item basic		81				
Weighted average common shares outstanding basic (in thousands)	771,724	778,167	804,389	806,013	806,000	806,000
Net income (loss) per share diluted [5]	(Won) (871)	(Won) 2,926	(Won) 2,241	(Won) 2,420	(Won) 2,781	US$ 2.97
Income (loss) per share before extraordinary items diluted	(871)	2,848	2,241	2,420	2,781	2.97
Extraordinary item diluted		78				
Weighted average common shares outstanding diluted (in thousands)	771,724	799,233	805,866	806,013	806,000	806,000
Cash dividends paid per share [6]	(Won) 100	(Won) 150	(Won) 400	(Won) 600	(Won) 250	US$ 0.27

(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)935.8 to US$1.00, the noon buying rate in effect on December 31, 2007 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) In the diluted earnings per share calculation, 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 2003, 2004, 2005, 2006 and 2007 are not deemed to have been exercised. Convertible debentures issued by Woori Financial, a subsidiary we acquired in September 2007, were included in the diluted earnings per share calculation for 2007, while stock-based compensation awards of Woori Financial were excluded from the diluted earnings per share calculation due to their anti-dilutive effect. See Note 32 of the notes to our consolidated financial statements.

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(6) 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 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 Korea Deposit Insurance Corporation, or 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. With respect to the 2007 fiscal year, we paid dividends in 2008 of (Won)250 per common share ($0.27 per common share at the noon buying rate in effect on December 31, 2007) to our stockholders, including the KDIC. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated Balance Sheet Data

	As of December 31,					
	2003	2004	2005	2006	2007	2007 (1) (in millions of US$)
	(in billions of Won)					
Assets						
Cash and cash equivalents (2)	(Won) 5,399	(Won) 4,315	(Won) 8,280	(Won) 7,935	(Won) 11,553	US$ 12,345
Restricted cash (2)(3)	373	388	376	243	131	140
Interest-earning deposits in other banks	1,640	990	1,553	1,582	2,128	2,274
Call loans and securities purchased under resale agreements	1,127	1,499	1,426	940	1,695	1,812
Trading assets	4,291	6,989	4,889	7,576	12,173	13,008
Available-for-sale securities	12,408	12,302	18,288	28,174	27,235	29,103
Held-to-maturity securities (fair value of (Won)10,143 billion in 2003, (Won)8,763 billion in 2004, (Won)9,613 billion in 2005, (Won)8,595 billion in 2006 and (Won)8,120 billion ($8,677 million) in 2007)	9,801	8,406	9,638	8,614	8,216	8,780
Other investment assets (4)	793	1,138	1,397	1,568	2,051	2,192
Loans (net of allowance for loan losses of (Won)2,834 billion in 2003, (Won)1,806 billion in 2004, (Won)1,525 billion in 2005, (Won)1,855 billion in 2006 and (Won)1,736 billion ($1,855 million) in 2007)	85,587	88,705	102,630	131,928	158,130	168,978
Due from customers on acceptances	421	338	355	267	249	266
Premises and equipment, net	2,151	2,110	2,060	2,149	2,399	2,564
Accrued interest and dividends receivable	747	558	703	865	950	1,015
Assets held for sale		26	49	81	132	141
Goodwill	25	22	48	38	232	248
Other assets (5)	2,850	3,128	3,223	3,121	3,601	3,848
Total assets	(Won) 127,613	(Won) 130,914	(Won) 154,915	(Won) 195,081	(Won) 230,875	US$ 246,714
Liabilities						
Deposits						
Interest-bearing	(Won) 85,482	(Won) 86,339	(Won) 99,609	(Won) 121,688	(Won) 140,359	US$ 149,989
Non-interest-bearing	3,521	3,714	4,538	4,851	4,668	4,989
Total deposits	89,003	90,053	104,147	126,539	145,027	154,978
Call money	412	689	326	2,270	3,008	3,215
Trading liabilities	473	1,628	1,339	1,701	2,981	3,185
Acceptances outstanding	421	338	355	267	249	266
Other borrowed funds	9,345	9,115	9,909	12,025	13,932	14,888

Secured borrowings	4,321	2,352	2,557	2,629	3,486	3,725
Long-term debt	14,917	15,662	21,850	32,298	41,336	44,172
Accrued interest payable	1,618	1,713	1,721	2,340	2,892	3,091
Other liabilities [(3)(6)]	3,218	2,862	4,379	4,531	5,494	5,869
Total liabilities	123,728	124,412	146,583	184,600	218,405	233,389
Minority interest	229	38	11	55	356	380
Total stockholders equity	3,656	6,464	8,321	10,426	12,114	12,945
Total liabilities, minority interest and stockholders equity	(Won) 127,613	(Won) 130,914	(Won) 154,915	(Won) 195,081	(Won) 230,875	US$ 246,714

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(1) Won amounts are expressed in U.S. dollars at the rate of (Won)935.8 to US$1.00, the noon buying rate in effect on December 31, 2007 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) Commencing with the year ended December 31, 2007, we have reclassified deposits for severance payments from restricted cash to other liabilities. See Notes 5 and 21 of the notes to our consolidated financial statements.

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

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

(6) 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,				
	2003	2004	2005	2006	2007
	(in billions of Won except percentages)				
Return on average assets [1]	(0.56)%	1.81%	1.28%	1.13%	1.03%
Return on average equity [2]	(17.17)	50.69	24.45	18.70	20.41
Net interest spread [3]	2.88	2.68	2.59	2.37	2.16
Net interest margin [4]	3.01	2.84	2.73	2.50	2.28
Cost-to-income ratio [5]	54.49	52.22	54.33	48.99	51.30
Average stockholders equity as a percentage of average total assets	3.25	3.56	5.25	6.06	5.05
Total revenue [6]	(Won) 8,955	(Won) 9,188	(Won) 9,125	(Won) 11,789	(Won) 14,414
Operating expense [7]	6,753	6,618	6,660	8,563	11,123
Operating margin [8]	2,202	2,570	2,465	3,226	3,291
Operating margin as a percentage of total revenue	24.59%	27.97%	27.01%	27.36%	22.83%

(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 SB Asset Management, 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 SB Asset Management, 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,				
	2003	2004	2005	2006	2007
	(in billions of Won)				
Interest and dividend income	(Won) 7,520	(Won) 7,235	(Won) 7,209	(Won) 9,365	(Won) 12,192

Non-interest income	1,435	1,953	1,916	2,424	2,222
Total revenue	(Won) 8,955	(Won) 9,188	(Won) 9,125	(Won) 11,789	(Won) 14,414

(7) Operating expense represents interest expense plus non-interest expense, excluding provisions of (Won)2,616 billion, (Won)689 billion, (Won)286 billion, (Won)652 billion and (Won)201 billion for 2003, 2004, 2005, 2006 and 2007, respectively.

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The following table shows how operating expense is calculated:

	Year ended December 31,				
	2003	2004	2005	2006	2007
	(in billions of Won)				
Interest expense	(Won) 4,117	(Won) 3,809	(Won) 3,727	(Won) 5,465	(Won) 7,656
Non-interest expense	2,636	2,809	2,933	3,098	3,467
Operating expense	(Won) 6,753	(Won) 6,618	(Won) 6,660	(Won) 8,563	(Won) 11,123

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

Asset Quality Data

	As of December 31,				
	2003	2004	2005	2006	2007
	(in billions of Won)				
Total loans	(Won) 88,392	(Won) 90,489	(Won) 104,130	(Won) 133,740	(Won) 159,885
Total non-performing loans [1]	2,594	2,071	1,369	1,354	1,121
Other impaired loans not included in non-performing loans	1,861	1,129	820	391	274
Total non-performing loans and other impaired loans	4,455	3,200	2,189	1,745	1,395
Total allowance for loan losses	2,834	1,806	1,525	1,855	1,736
Non-performing loans as a percentage of total loans	2.93%	2.29%	1.31%	1.01%	0.70%
Non-performing loans as a percentage of total assets	2.03	1.58	0.88	0.69	0.48
Total non-performing loans and other impaired loans as a percentage of total loans	5.04	3.54	2.10	1.30	0.87
Allowance for loan losses as a percentage of total loans	3.21	2.00	1.46	1.39	1.09

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

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Segment Information Under Korean GAAP

The following table sets forth financial data under Korean GAAP as of or for the year ended December 31, 2007 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) 9,969	(Won) 1,009	(Won) 868	(Won) 693	(Won) 549	(Won) 91	(Won) (63)	(Won) 13,116
Interest expense	6,245	591	532	95	342	155	(40)	7,920
Net interest income (loss)	3,724	418	336	598	207	(64)	(23)	5,196
Provision for loan losses and credit-related commitments (reversal of provision)	589	38	50	79	0	4	14	774
Non-interest Income	10,378	344	119	29	2,561	2,641	(2,414)	13,658
Non-interest expenses	11,133	493	246	377	2,370	284	(246)	14,657
Net non-interest income (loss)	(755)	(149)	(127)	(348)	191	2,357	(2,168)	(999)
Depreciation and amortization	158	10	8	0	19	173	11	379
Net income (loss) before tax	2,222	221	151	171	379	2,116	(2,216)	3,044
Income tax expense (benefit)	567	60	40	47	115	21	(16)	834
Minority interest	1	0	0	0	0	1	181	183
Net income (loss) for the period under Korean GAAP	1,654	161	111	124	264	2,094	(2,381)	2,027
U.S. GAAP adjustments	110	51	(22)	5	91	27	(47)	(215)

Consolidated net income	(Won) 1,764	(Won) 212	(Won) 89	(Won) 129	(Won) 355	(Won) 2,121	(Won) (2,428)	(Won) 2,242
Segments total assets under Korean GAAP	(Won) 196,210	(Won) 19,339	(Won) 15,294	(Won) 2,615	(Won) 15,173	(Won) 16,067	(Won) (15,078)	(Won) 249,620
U.S. GAAP adjustments	(5,451)	(364)	(52)	7	(14,436)	2,507	(956)	(18,745)
Segments total assets	(Won) 190,759	(Won) 18,975	(Won) 15,242	(Won) 2,622	(Won) 737	(Won) 18,574	(Won) (16,034)	(Won) 230,875

(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.

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Selected Financial Information

Average Balance Sheets and Related Interest

The following tables show our average balances and interest rates for 2005, 2006 and 2007:

	Year ended December 31,								
	2005			2006			2007		
	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) 1,527	(Won) 46	2.98%	(Won) 1,387	(Won) 49	3.56%	(Won) 2,431	(Won) 82	3.38%
Call loans and securities purchased under resale agreements	2,003	64	3.20	1,833	67	3.64	2,800	95	3.38
Trading securities (4)	4,210	158	3.76	5,681	216	3.80	9,894	390	3.94
Investment securities (4)	24,296	1,214	5.00	27,091	1,473	5.44	35,764	1,996	5.58
Loans									
Commercial and industrial	45,667	2,719	5.95	56,055	3,528	6.29	74,505	4,751	6.38
Lease financing	91	5	5.45	49	4	8.33	184	20	11.04
Trade financing	7,331	305	4.16	8,041	394	4.90	8,613	426	4.95
Other commercial	4,317	299	6.91	3,910	377	9.63	5,899	337	5.71
General purpose household (5)	32,112	1,900	5.92	46,032	2,733	5.94	54,198	3,545	6.54
Mortgage	5,187	276	5.32	5,027	303	6.03	3,366	231	6.87
Credit cards (3)	878	223	25.41	644	221	34.29	874	319	36.52
Total Loans (6)	95,583	5,727	5.99%	119,758	7,560	6.31%	147,639	9,629	6.52%
Total average interest-earning assets	127,619	7,209	5.65%	155,750	9,365	6.01%	198,528	12,192	6.14%
Non-interest-earning assets									
Cash and cash equivalents	4,031			4,680			7,528		
Foreign exchange contracts and derivatives	933			1,153			1,676		
Premises and equipment	2,081			1,999			2,263		
Due from customers on acceptance	346			311			258		
Allowance for loan losses	(1,557)			(768)			(1,699)		
Other non-interest-earning assets (7)	7,349			8,971			9,140		
Total average non-interest-earning assets	13,183			16,346			19,166		
Total average assets	(Won) 140,802	(Won) 7,209	5.12%	(Won) 172,096	(Won) 9,365	5.44%	(Won) 217,694	(Won) 12,192	5.60%

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	Year ended December 31,								
	2005			2006			2007		
	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) 21,271	(Won) 42	0.20%	(Won) 24,248	(Won) 57	0.23%	(Won) 24,912	(Won) 68	0.27%
Savings deposits	9,795	271	2.77	10,900	367	3.37	11,306	346	3.06
Certificate of deposit accounts	6,931	259	3.73	10,525	489	4.64	19,618	993	5.06
Other time deposits	52,277	1,898	3.63	61,814	2,570	4.16	76,989	3,502	4.55
Mutual installment deposits	761	31	4.05	596	21	3.65	455	16	3.59
Total deposits	91,035	2,501	2.75	108,083	3,504	3.24	133,280	4,925	3.70
Call money	934	29	3.08	1,703	71	4.15	1,965	96	4.90
Borrowings from the Bank of Korea	1,258	25	2.00	1,369	34	2.46	1,035	30	2.94
Other short-term borrowings	9,194	269	2.92	9,582	418	4.38	13,124	594	4.52
Secured borrowings	2,839	114	4.03	2,506	115	4.58	4,018	180	4.47
Long-term debt	16,494	789	4.78	26,979	1,323	4.90	38,817	1,831	4.72
Total average interest-bearing liabilities	121,754	3,727	3.06	150,222	5,465	3.64	192,239	7,656	3.98
Non-interest-bearing liabilities									
Demand deposits	3,704			3,513			4,618		
Foreign exchange contracts and derivatives	2,733			2,906			2,958		
Acceptances outstanding	347			311			258		
Other non-interest-bearing liabilities	4,876			4,709			6,634		
Total average non-interest-bearing liabilities	11,660			11,439			14,468		
Total average liabilities	133,414	3,727	2.79	161,661	5,465	3.38	206,707	7,656	3.70
Average stockholders equity	7,388			10,435			10,987		
Total average liabilities and stockholders equity	(Won) 140,802	(Won) 3,727	2.65	(Won) 172,096	(Won) 5,465	3.18	(Won) 217,694	(Won) 7,656	3.52

(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.

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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 2006 compared to 2005 and 2007 compared to 2006. 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.

	2006 vs. 2005			2007 vs. 2006		
		Increase/(decrease) due to changes in			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) (4)	(Won) 8	(Won) 4	(Won) 37	(Won) (4)	(Won) 33
Call loans and securities purchased under resale agreements	(5)	8	3	35	(7)	28
Trading securities	55	2	57	160	14	174
Investment securities	140	119	259	472	50	522
Loans						
Commercial and industrial	619	189	808	1,161	63	1,224
Lease financing	(2)	1	(1)	11	5	16
Trade financing	30	59	89	28	4	32
Other commercial	(28)	106	78	192	(232)	(40)
General purpose household [1]	824	9	833	485	327	812
Mortgage	(9)	36	27	(100)	28	(72)
Credit cards	(59)	57	(2)	79	19	98
Total interest income	1,561	595	2,156	2,560	267	2,827
Interest-bearing liabilities						
Deposits						
Demand deposits	6	8	14	2	10	12
Savings deposits	31	65	96	14	(35)	(21)
Certificate of deposit accounts	134	96	230	422	82	504
Other time deposits	346	326	672	631	301	932
Mutual installment deposits	(7)	(2)	(9)	(5)	(1)	(6)
Call money	24	18	42	11	14	25
Borrowings from the Bank of Korea	2	7	9	(8)	5	(3)
Other short-term borrowings	10	140	150	155	19	174
Secured borrowings	(13)	13	0	69	(4)	65
Long-term debt	502	32	534	580	(71)	509
Total interest expense	1,035	703	1,738	1,871	320	2,191
Net interest income	(Won) 526	(Won) (108)	(Won) 418	(Won) 686	(Won) (53)	(Won) 636

[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 31, 2007, which was (Won)935.8 to US$1.00. We do not intend to imply that

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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 23, 2008, the noon buying rate was (Won)1,036.8 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average [(1)]	Period-End
2003	(Won) 1,146.0	(Won) 1,262.0	(Won) 1,193.0	(Won) 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	903.2	950.2	942.1	935.8
December	918.9	935.8	931.1	935.8
2008 (through June 23, 2008)				
January	935.2	953.2	942.1	943.4
February	937.2	948.2	943.9	942.8
March	947.1	1,021.5	981.7	988.6
April	973.5	1,005.0	986.9	1,005.0
May	1,004.0	1,047.0	1,034.1	1,028.5
June (through June 23)	1,016.8	1,044.0	1,029.0	1,036.8

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)40,198 billion, or 44.4% of our total loans, as of December 31, 2004 to (Won)68,077 billion, or 42.6% of our total loans, as of December 31, 2007. As of December 31, 2007, on a Korean GAAP basis, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were (Won)593 billion, representing 0.9% of such loans to those enterprises. On a Korean GAAP basis, we recorded charge-offs of (Won)157 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2007, compared to charge-offs of (Won)107 billion in 2006. 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 decreased in 2006 and 2007. As of December 31, 2006, the delinquency ratio for loans to small- and medium-sized enterprises 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 enterprises 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 1.7% as of December 31, 2002 to 2.7% as of December 31, 2004, but decreased to 1.9% as of December 31, 2005, to 1.4% as of December 31, 2006 and further decreased under the new method of calculation to 0.9% as of December 31, 2007. Despite such decreases, our delinquency ratio may increase in 2008 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.

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 large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations 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 Korean large corporations 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, 2007, eleven 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)30,777 billion, or 13.8% 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, 2007, our 20 largest exposures to corporate borrowers totaled (Won)30,763 billion, which represented 13.7% 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)10,021 billion, representing 4.5% 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)2,334 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, 2007, our credit exposures to companies that were in workout, corporate restructuring, composition or corporate reorganization amounted to (Won)406 billion or 0.2% of our total credit exposures, of which (Won)235 billion or 57.9% 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)136 billion, or 33.4% 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, 2007 to companies in workout, restructuring, corporate reorganization or composition amounted to (Won)557 billion, or 0.3% 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)32,302 billion as of December 31, 2004 to (Won)59,523 billion as of December 31, 2007. While our credit card portfolio decreased from (Won)2,128 billion as of December 31, 2004 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 and increased further to (Won)3,325 billion as of December 31, 2007. As of December 31, 2007, our consumer loans and credit card receivables represented 37.2% and 2.1% 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)498 billion, or 1.5% of our consumer loan portfolio, as of December 31, 2004 to (Won)241 billion, or 0.4% of our consumer loan portfolio, as of December 31, 2007. We charged off consumer loans amounting to (Won)186 billion in 2007, as compared to (Won)74 billion in 2006, and recorded provisions in respect of consumer loans of (Won)133 billion in 2007, as compared to (Won)109 billion in 2006. 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)14,175 billion, or 43.9% of our total outstanding consumer loans, as of December 31, 2004 to (Won)30,967 billion, or 52.0% of our total outstanding consumer loans, as of December 31, 2007.

In our credit card segment, outstanding balances overdue by 30 days or more decreased from (Won)136 billion, or 6.4% of our credit card receivables, as of December 31, 2004 to (Won)71 billion, or 2.1% of our credit card receivables, as of December 31, 2007. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2007, these restructured loans amounted to (Won)9 billion, or 0.3% 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 to our credit card balances. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 2.4% of our credit card balances as of December 31, 2007. We charged off credit card balances amounting to (Won)83 billion in 2007, as compared to (Won)87 billion in 2006, and recorded provisions in respect of credit card balances of (Won)24 billion in 2007, as compared to a reversal of provisions of (Won)5 billion in 2006. Delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea, difficulties

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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.

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 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 60% 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 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.

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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 operational risk), including with respect to credit risk management following systems upgrades completed in 2007. We also plan to continue to diversify our product offerings through, among other things, increased marketing of insurance products and expansion of 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 operational risk), including with respect to credit risk management following systems upgrades completed in 2007. 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 Brokerage. In May 2005, we purchased a 90.0% direct ownership interest in LG Investment Trust Management, or LGITM, from LGIS. 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. As part of our business plan, we have, through Woori Bank, Kyongnam Bank and Kwangju Bank, also entered into bancassurance marketing arrangements with third party insurance companies. See Item 4B. Business Overview Business Other Businesses Bancassurance. Furthermore, we acquired a 51.4% interest in Hanmi Capital in September 2007, which was subsequently renamed Woori Financial, and acquired a 51.0% interest in LIG Life Insurance in April 2008, which was subsequently renamed Woori Aviva Life Insurance. Woori Financial became a consolidated subsidiary, while we expect to account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP.

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 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,

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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. 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. In addition, in March 2008, we began a stockholder benefits program whereby Woori Bank will reduce or waive various fees, including foreign exchange-related commissions and credit card annual membership fees, for holders of ten shares or more of our common stock. These measures may adversely affect our 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, and 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 Services Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services 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 focusing on retail customers and small- and medium-sized enterprises in recent years, although they are beginning to increase their exposure to large corporate borrowers, 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 lower profitability and 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 that regulatory reforms, including the enactment of the Financial Investment Services and Capital Market Act in 2007, 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, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005 and Chohung Bank s merger with Shinhan Bank in April 2006, as well as the proposed acquisition of Korea Exchange Bank by HSBC. 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.

Competition for customer deposits may increase, resulting in a loss of our deposit customers or an increase in our funding costs.

In recent years, 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.

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Other risks relating to our business

Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance.

During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. These conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets. We are exposed to adverse developments in the U.S. sub-prime mortgage market through our holdings of collateralized debt obligations related to U.S. mortgage loans. As of December 31, 2007, we held, through Woori Bank, approximately (Won)980 billion in face value of collateralized debt obligations, of which approximately (Won)460 billion were related to U.S. sub-prime mortgages. We recognized impairment losses of (Won)417 billion in 2007 with respect to our holdings of U.S. sub-prime mortgage-related collateralized debt obligations as well as impairment losses of (Won)89 billion with respect to other collateralized debt obligations, which in turn resulted in a decrease in net gain on investment securities and contributed to a decrease in our non-interest income in 2007 as compared to 2006. We are also exposed to adverse developments in the U.S. and global credit markets through our holdings of derivatives. As of December 31, 2007, our total exposure under credit derivatives outstanding was approximately (Won)615 billion (including (Won)146 billion of credit derivatives relating to Korean companies), principally through credit default swaps and total return swaps held by Woori Bank. We recognized losses on valuation of our credit derivatives amounting to (Won)130 billion in 2007, which in turn resulted in a decrease in our net trading revenue and contributed to a decrease in our non-interest income in 2007 as compared to 2006. Furthermore, in the first quarter of 2008, the fair value of our holdings of collateralized debt obligations and credit derivatives declined further following the downgrades of ratings of such instruments by various rating agencies. For the three months ended March 31, 2008, on a Korean GAAP basis, we recognized a decrease in the fair value of our holdings of collateralized debt obligations of approximately (Won)93 billion and losses on valuation of our credit derivatives of approximately (Won)44 billion. Continued adverse conditions in the U.S. sub-prime mortgage and U.S. and global credit markets could result in additional losses on collateralized debt obligations as well as credit derivatives held by us.

In addition, recent increases in credit spreads, as well as limitations on the availability of credit, may affect our ability to borrow, which may adversely affect our liquidity and performance. In the event that the current difficult conditions in the global credit markets continue, we may be forced to fund our operations at a higher cost or we may be unable to raise as much funding as we need to support our lending and other activities. This could cause us to curtail our business activities and could increase our cost of funding, both of which may reduce our profitability.

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.

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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, 2007, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)4,573 billion. As of that date, we had established allowances of (Won)1 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 began to rebound in the second half of 2005 and stabilized in 2006 and 2007, although they have declined again in 2008. Approximately 91.8% 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, 2007, approximately 93.6% 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 the event that a substantial number of these short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment

opportunities emerge, 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. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

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, 2007, 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)17,912 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 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 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.

Under the new capital adequacy requirements of the Financial Services Commission which came into effect on January 1, 2007, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy 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

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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, 2007, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Services 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 American depositary shares, 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.

Beginning on January 1, 2008, the Financial Supervisory Service implemented the new Basel Capital Accord, referred to as Basel II, in Korea, which has affected 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 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 is currently using a standardized approach but 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 and is expected to be implemented in 2009. Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. While we believe that Woori Bank s implementation of an internal ratings-based approach for the first time in 2009 will not lead to a significant increase in its capital requirements, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank s credit risk capital requirements in the future, which may 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.

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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.

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Risks relating to government regulation and policy

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

In recent years, the Financial Services Commission (formerly 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 Services 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 Services 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 the second half of 2007, the Financial Services Commission increased the minimum required provisioning levels applicable to all loans (other than consumer loans and credit card balances) classified as normal. This change resulted in a significant increase in our consolidated allowance for loan losses, allowance for acceptances and guarantees and other allowances for unused lines of credit under Korean GAAP, and a corresponding decrease in our consolidated income before income tax under Korean GAAP, in 2007.

Also, in November 2004, the Financial Services 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 Services Commission also announced that 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

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under Korean GAAP in 2005 or 2006. However, the Financial Services Commission has not since released any further details regarding the new guidelines, and it is unclear whether such new guidelines will be implemented in the future. Full compliance with the new guidelines may increase our provisions for loan losses under Korean GAAP compared to previous levels established under the asset classification-based provisioning guidelines.

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.

The Korean government has also expressed a continuing commitment to stabilize rising prices in the real estate market and a willingness to implement necessary measures for this purpose. For example, from 2004 through 2006, the Korean government:

- raised the residential property tax applicable to residential properties in cases where the aggregate value of the residential properties held by a single household exceeds (Won)600 million;
- raised the capital gains tax applicable to sales of residential properties in cases where such property belongs to a household that owns more than three, and under certain circumstances more than two, residential properties;
- 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.

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.

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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 prior years, the Korean government heightened its regulatory oversight of the credit card industry. From mid-2002 through early 2003, the Ministry of Strategy and Finance (formerly the Ministry of Finance and Economy) and the Financial Services 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 Services 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 may promote 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 aimed at promoting certain sectors of the economy, including measures such as 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 recommendations encouraging financial institutions in Korea to provide financial support to particular economic 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 that held debt securities of credit card companies to extend the maturity of such securities and also requesting banks and other financial institutions 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.

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

If the Financial Services 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 Services 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 Services Commission, they could hurt our business, results of operations and financial condition. In addition, if the Financial Services Commission orders us to partially or completely reduce our capital, you may lose part or all of your investment.

The recent enactment of the Financial Investment Services and Capital Market Act may result in increased competition in the Korean financial services industry.

In July 2007, the National Assembly of Korea enacted the Financial Investment Services and Capital Market Act, a new law intended to enhance the integration of the Korean capital markets and financial investment products industry. When the Financial Investment Services and Capital Market Act becomes effective in February 2009, our subsidiary banks and other banks in Korea may face greater competition in the Korean financial services market from securities companies and other non-bank financial institutions. For example, securities companies currently are not permitted to accept deposits other than for purposes of securities investment by customers and may not provide secondary services in connection with securities investments such as settlement and remittance relating to such deposits. However, under the Financial Investment Services and Capital Market Act, financial investment companies, which will replace the current securities companies, among others, will be able to provide such secondary services. Accordingly, our subsidiary banks and other banks in Korea may experience a loss of customer deposits (which in turn may result in a need to seek alternative funding sources and an increase in our subsidiary banks funding costs), as well as a decrease in our subsidiary banks settlement and remittance service fee income, which may outweigh the benefits to our non-banking subsidiaries under the Financial Investment Services and Capital Market Act.

In addition, we believe it is likely that securities companies, as well as asset management companies and other financial industry participants in Korea, will seek to take advantage of the greater flexibility provided under the Financial Investment Services and Capital Market Act to expand their operations in areas that we also plan to develop further, such as investment banking and asset management. As a result, we may face increased competition for customers as well as qualified employees as a result of the implementation of the new law. The Financial Investment Services and Capital Market Act is also likely to result in substantial consolidation and convergence among companies in the Korean financial services industry in the near future. This trend toward consolidation and convergence may significantly increase the capital base and geographic reach of some of our competitors. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide greater competition for us.

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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. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future 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 and commodity prices, the general weakness of the U.S. and global economy, the possibility of an outbreak of avian flu in Asia and other parts of the world, and recent difficult conditions and volatility in the U.S. and worldwide credit markets 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;

the economic impact of any pending or future free trade agreements, including the Free Trade Agreement recently negotiated with the United States;

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.

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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 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 October 2007, Korea and North Korea held a summit meeting to discuss easing tensions and fostering peace on the Korean peninsula. Despite these recent initiatives, there can be no assurance that the level of tension on the Korean peninsula will not escalate in the future.

In particular, there is no guarantee that the new administration in Korea, which took office in February 2008, will continue the policy on North Korea of the previous administration or that the high-level contacts between Korea and North Korea will continue. 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 Korea National Statistics Office, the unemployment rate increased from 3.6% in 2003 to 3.7% in 2004 and 2005 but decreased to 3.5% in 2006. In 2007, the unemployment rate decreased further to 3.2%. 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 the past 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 deadline was subsequently extended and then abolished in March 2008 as a result of an amendment to the Financial Holding Company Act.

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 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 Services 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 the applicable limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services 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.

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.

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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, 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 June 23, 2008, the KOSPI closed at 1,715.59. 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.

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 telephone number is 822-2125-2000. 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 Services 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 Services 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 Services Commission issue a capital reduction order with respect to these banks pursuant to its regulatory authority. Under Korean law, the Financial Services 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 Services 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 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 W2.6 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.

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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 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 Services Commission before we can acquire control of another company;
- must obtain permission from the Financial Services Commission to liquidate or to merge with another company;
- must inform the Financial Services Commission if there is any change in our officers, directors or largest shareholder; and
- must inform the Financial Services 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.

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.

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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 Korean GAAP targets for each six-month period in 2008 are set forth in the following table:

	Six-month period ended 2008	
	June	December
Capital adequacy ratio [(1)]	9.5%	9.7%
Return on total assets [(2)]	0.6	0.7
Expense-to-revenue ratio [(3)]	51.8	50.5
Operating income per employee (Won millions) [(4)]	(Won) 360	(Won) 370
Non-performing loan ratio [(5)]	1.0%	1.0%
Holding company expense ratio [(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, in each case, 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.

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 Services 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.

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In addition, 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.

Furthermore,

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 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.

In October 2005, we established Woori Private Equity as a consolidated subsidiary.

In September 2007, we acquired a 51.4% interest in Hanmi Capital, which became a consolidated subsidiary, and renamed the entity Woori Financial.

In April 2008, we acquired a 51.0% interest in LIG Life Insurance. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 91.7% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. We expect to account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP.

In addition, we have implemented a group-wide, standardized risk management system (except with respect to operational risk), including the standardization of the credit risk management systems of our subsidiaries which was completed in 2007. With respect to credit risk management systems, we have completed implementing standardized credit risk management systems based on Woori Bank s system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, 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 in 2006, and expect to complete the implementation of such aspects of the operational risk management system at Woori Investment & Securities by the end of 2008.

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

Business

We are Korea s first financial holding company, and our operations include the second-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, 2007, we had consolidated total assets of (Won)230.9 trillion, consolidated total deposits of (Won)145.0 trillion and consolidated stockholders equity of (Won)12.1 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. Since our establishment, 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 1,144 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 19 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:

(1) Woori Investment & Securities is accounted for as an equity method investee.
(2) Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and in respect of which we entered into a joint venture agreement with Aviva International Holdings Limited, is expected to be accounted for as an equity method investee under U.S. GAAP.

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 15 of the 42 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 605,000 as of December 31, 2007.

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 19 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 1,144 branches and 8,416 ATMs and cash dispensers. Through Woori Bank, we also operate 13 dedicated corporate marketing centers and over 94 relationship managers for our large corporate customers and over 746 relationship professionals stationed at 659 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, 2007, our consolidated stockholders equity totaled W12.1 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 11.0%. 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 been recruited from outside our group to complement our team. We expect that in late June 2008, Pal-Seung Lee, a former chief executive officer of Woori Investment & Securities, will assume the role of our chairman and chief executive officer, which we believe will enhance 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 0.7% as of December 31, 2007.

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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 standardized credit evaluation systems based on the CREPIA system. In preparation for the implementation of Basel II, we completed upgrades to our credit risk management systems in 2007, including credit evaluation models, collateral management systems and non-performing credit management systems, as well as the implementation of a credit risk measurement engine to quantify our credit risk exposures.

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 have been seeking 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 have been seeking 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 of Kyongnam Bank and Kwangju Bank with those of Woori Bank, with various upgrades to standardize the credit risk management and operational risk management systems of Kyongnam Bank and Kwangju Bank being completed in 2007.

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.

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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,					
	2005		2006		2007	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)					
Loans:						
Small- and medium-sized enterprise	(Won) 43,691	42.0%	(Won) 55,150	41.2%	(Won) 68,077	42.6%
Large corporate	13,632	13.1	15,115	11.3	18,889	11.8
Others [1]	4,268	4.1	5,280	3.9	10,071	6.3
Total	(Won) 61,591	59.2%	(Won) 75,545	56.4%	(Won) 97,037	60.7%
Deposits:						
Small- and medium-sized enterprise	(Won) 12,812	12.3%	(Won) 18,900	14.9%	(Won) 22,174	15.3%
Large corporate	24,249	23.2	34,626	27.4	45,461	31.3
Total	(Won) 37,061	35.5%	(Won) 53,526	42.3%	(Won) 67,635	46.6%
Number of borrowers:						
Small- and medium-sized enterprise	189,052		172,759		171,040	
Large corporate	1,097		924		1,037	

(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

We use the term small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations. 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 fewer than 1,000, and the total amount of assets must be less than (Won)500 billion. 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 65.9% of our total corporate loans as of December 31, 2002 to 70.2% as of December 31, 2007. As of December 31, 2007, 30.8% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 13.4% were extended to borrowers in the retail and wholesale industry and 5.7% 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, 2007, Woori Bank had stationed one or more relationship professionals at 659 branches, of which 472 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, 2007, Woori Bank had a total of 746 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 decreased in 2006 and 2007. As of December 31, 2006, the delinquency ratio for loans to small- and medium-sized enterprises 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 enterprises 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, to 1.4% as of December 31, 2006 and further decreased under the new method of calculation to 0.9% as of December 31, 2007. On a Korean GAAP basis, we charged off (Won)157 billion of our Won-denominated loans to small- and medium-sized enterprises in 2007. 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, 2007, working capital loans and facilities loans accounted for 75.9% and 18.4%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2007, we had approximately 171,040 small- and medium-sized enterprise borrowers.

As of December 31, 2007, secured loans and loans guaranteed by a third party accounted for 55.0% and 18.6%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2007, approximately 64.9% of the secured loans were secured by real estate and 14.1% 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 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. At Kyongnam Bank and Kwangju Bank, we began to determine lending rates using similar credit evaluation systems from January 2008. 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, 2007, about 70% of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

Our large corporate customers consist of companies that are not small- and medium-size enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations, and typically include companies that have assets of (Won)7 billion or more 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, 2007, 53.5% of our large corporate loans were extended to borrowers in the manufacturing industry, 8.6% were extended to borrowers in the retail and wholesale industry and 6.0% 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, 12 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, 2007, Woori Bank had a total of 94 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, 2007, working capital loans and facilities loans accounted for 38.6% and 8.1%, 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, 2007, secured loans and loans guaranteed by a third party accounted for 21.5% and 3.5%, 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, 2007, approximately 57.7% of the secured loans were secured by real estate and approximately 3.9% 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, 2007, 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,					
	2005		2006		2007	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentage)					
General purpose household loans	(Won) 20,183	19.4%	(Won) 28,117	21.0%	(Won) 30,967	19.3%
Mortgage and home equity loans	20,181	19.4	27,588	20.6	28,556	17.9
Total	(Won) 40,364	38.8%	(Won) 55,705	41.6%	(Won) 59,523	37.2%

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 60% 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, 2007, the revaluation period was every year for real estate (with apartments being revalued every month), every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange.

A borrower s eligibility for general purpose household loans is primarily determined by such borrower s creditworthiness. In reviewing a potential borrower s loan application, we also consider the suitability of the borrower s proposed use of funds, as well as the borrower s ability to provide a first-priority mortgage. A borrower s eligibility for a home equity loan is primarily determined by such borrower s creditworthiness (including as determined by our internal credit scoring protocols) and the value of the collateral property, as well as any third party guarantees of the borrowed amounts.

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 to be used for working capital purposes, and loans to educational institutions 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 suitability of the borrower s proposed use of funds. 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, 2007, approximately (Won)21,360 billion, or 69.2% 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, 2007, 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 began to determine lending rates at Kyongnam Bank and Kwangju Bank using similar credit evaluation systems from January 2008. 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, 2007, approximately 94.0% 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 typically 30 years for Woori Bank, Kyongnam Bank and Kwangju Bank. Most of our mortgage and home equity loans have an interest-only payment period 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, 2007, approximately 92.8% of our mortgage and home equity loans were secured by residential or other property, 1.6% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 4.0% 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). One reason that a portion 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, 2007, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)1,135 billion. For the year ended December 31, 2007, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 47.8%, compared to 53.1% for the year ended December 31, 2006.

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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, 2007, approximately 94.7% 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, 2007, we had over 392,583 customers who qualified for private banking services, representing 2.1% of our total retail customer base. Of our total retail customer deposits of (Won)51,301 billion as of December 31, 2007, high net worth and mass affluent customers accounted for 78.9%.

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 deposit 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 460 branches that offer private banking services. These branches are staffed by 507 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, 2007, 79 private bankers were dispersed over 78 Kyongnam Bank branches and 47 private bankers were dispersed over 46 Kwangju Bank branches that provided private banking services.

We operate three 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 11 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.

Deposit-Taking Activities

As of December 31, 2007, 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)51,173 billion, (Won)49,830 billion, and (Won)51,301 billion as of December 31, 2005, 2006 and 2007, respectively, which constituted 49.1%, 39.4% and 35.4%, respectively, of the balance of our total deposits.

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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 five years, with a required minimum deposit of (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, 2007:

Time Deposits	Demand Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
53.67%	20.48%	10.59%	0.28%	14.98%

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 Act. 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 Housing Act. 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.

Apartment application savings accounts deposits, which are monthly installment savings programs providing the holder with a preferential right to subscribe for new national housing units constructed under the Housing Act or mid-sized, privately constructed national housing units. These deposits are available only to heads of household who do not own a home. These deposits require monthly installments of (Won)20,000 to (Won)100,000, terminate when the holder is selected as a subscriber for a housing unit and accrue interest at fixed rates.

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 7%. 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, 2007, our banking subsidiaries paid an aggregate of (Won)149 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 1,144 branches in Korea as of December 31, 2007, which on a combined basis, was the second-most extensive network of branches among Korean commercial banks. 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, 2007:

	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Area								
Seoul	434	50.0%	3	2.0%	4	3.1%	441	38.6%
Six largest cities (other than Seoul)	154	17.7	46	31.3	84	65.6	284	24.8
Other	281	32.3	98	66.7	40	31.3	419	36.6
Total	869	100.0%	147	100.0%	128	100.0%	1,144	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.

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, 2007:

	ATMs	Cash Dispensers

Woori Bank	3,711	3,041
Kyongnam Bank	478	469
Kwangju Bank	327	390
Total	4,516	3,900

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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,					
	2005		2006		2007	
ATMs (1):						
Number of transactions (millions)		333		369		398
Fee income (billions of Won)	(Won)	34	(Won)	39	(Won)	34
Telephone banking:						
Number of users		4,131,770		4,675,000		5,186,812
Number of transactions (millions)		118		118		118
Fee income (billions of Won)	(Won)	14	(Won)	9	(Won)	5
Internet banking:						
Number of users		2,793,322		4,331,780		6,339,416
Number of transactions (millions)		915		1,368		2,068
Fee income (billions of Won)	(Won)	63	(Won)	58	(Won)	70

Kyongnam Bank

	For the year ended December 31,					
	2005		2006		2007	
ATMs (1):						
Number of transactions (millions)		53		59		68
Fee income (billions of Won)	(Won)	2	(Won)	2	(Won)	8
Telephone banking:						
Number of users		568,804		621,807		792,416
Number of transactions (millions)		22		23		20
Fee income (billions of Won)	(Won)	2	(Won)	2	(Won)	2
Internet banking:						
Number of users		275,875		352,934		528,177
Number of transactions (millions)		52		69		61
Fee income (billions of Won)	(Won)	1	(Won)	1	(Won)	1

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Kwangju Bank

	For the year ended December 31,					
	2005		2006		2007	
ATMs [1]:						
Number of transactions (millions)		39		63		75
Fee income (billions of Won)	(Won)	7	(Won)	7	(Won)	7
Telephone banking:						
Number of users		479,969		530,336		582,098
Number of transactions (millions)		18		17		17
Fee income (billions of Won)	(Won)	2	(Won)	2	(Won)	1
Internet banking:						
Number of users		444,395		517,022		573,029
Number of transactions (millions)		36		61		87
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, and recently completed the development of a service that enables private banking customers to access their accounts on a website that provides 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 devices. 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,

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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. 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. In addition, in March 2008, we began a stockholder benefits program whereby Woori Bank will reduce or waive various fees, including foreign exchange-related commissions and credit card annual membership fees, for holders of ten shares or more of our common stock.

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, 2007, Woori Bank s market share based on transaction volume was approximately 6.8%, 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.

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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,								
	2005			2006			2007		
	Woori Card (1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card (1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card (1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card
	(in billions of Won, unless indicated otherwise)								
Number of credit card holders (at year end) (thousands of holders)									
General accounts	5,308	417	331	6,402	522	416	7,240	659	540
Corporate accounts	141	24	16	163	27	21	147	31	27
Total	5,449	441	347	6,565	549	437	7,387	690	567
Active ratio (2)	44.09%	41.81%	50.90%	47.17%	45.35%	57.78%	59.79%	51.01%	63.24%
Credit card interest and fees									
Installment and cash advance interest (3)	(Won) 240	(Won) 14	(Won) 5	(Won) 239	(Won) 12	(Won) 5	(Won) 246	(Won) 17	(Won) 5
Annual membership fees	11			11			12	1	
Merchant fees (3)	244	23	16	300	27	22	391	25	28
Other fees	42	3	3	36	4	2	71	6	2
Total	(Won) 537	(Won) 40	(Won) 24	(Won) 586	(Won) 43	(Won) 29	(Won) 720	(Won) 49	(Won) 35
Charge volumes									
General purchase	(Won) 7,785	(Won) 708	(Won) 500	(Won) 9,999	(Won) 935	(Won) 721	(Won) 14,333	(Won) 1,189	(Won) 1,001
Installment purchase	1,814	197	78	2,003	212	108	3,052	246	129
Cash advance	5,435	286	206	5,213	255	197	5,587	234	191
Card loan	4	3		180	2		352	7	
Total	(Won) 15,038	(Won) 1,194	(Won) 784	(Won) 17,395	(Won) 1,404	(Won) 1,026	(Won) 23,324	(Won) 1,676	(Won) 1,321
Outstanding balances (at year end)									
General purchase	(Won) 642	(Won) 95	(Won) 47	(Won) 799	(Won) 116	(Won) 61	(Won) 1,188	(Won) 144	(Won) 82
Installment purchase	482	46	23	527	47	26	779	49	30
Cash advance	605	33	21	642	30	19	785	32	20
Card loan	95	3		136	2		209	7	0
Total	(Won) 1,824	(Won) 177	(Won) 91	(Won) 2,104	(Won) 195	(Won) 106	(Won) 2,961	(Won) 232	(Won) 132
Average outstanding									

balances									
General purchase	(Won) 632	(Won) 92	(Won) 48	(Won) 798	(Won) 103	(Won) 61	(Won) 1,125	(Won) 136	(Won) 77
Installment purchase	462	45	20	486	45	25	737	47	29
Cash advance	640	5	24	653	32	21	743	30	19
Card loan	173	6		110	2		198	6	0
Total	(Won) 1,907	(Won) 178	(Won) 92	(Won) 2,047	(Won) 182	(Won) 107	(Won) 2,803	(Won) 219	(Won) 125
Delinquency ratios [4]									
Less than 1 month	5.54%	1.87%	3.86%	6.03	1.64	3.84	4.64	1.39	2.93
From 1 month to 3 months	1.20	0.68	0.96	1.70	0.90	0.84	1.21	0.55	0.78
From 3 months to 6 months	1.30	0.71	0.65	1.15	0.71	0.68	0.92	0.50	0.59
Over 6 months	0.36	0.66	0.77	0.15	0.51	0.40	0.07	0.31	0.29
Total	8.40%	3.92%	6.24%	9.03%	3.76%	5.76%	6.84%	2.75%	4.59%
Non-performing loan ratio [5]	1.66%	1.37%	1.42%	1.30%	1.22%	1.08%	1.07%	1.40%	1.10%
Charge-offs (gross)	(Won) 168	(Won) 8	(Won) 7	(Won) 80	(Won) 4	(Won) 3	(Won) 78	(Won) 3	(Won) 2
Recoveries	94	4		74	2	2	63	2	1
Net charge-offs	(Won) 74	(Won) 4	(Won) 7	(Won) 6	(Won) 2	(Won) 1	(Won) 15	(Won) 1	(Won) 1
Gross charge-off ratio [6]	8.81%	3.93%	6.52%	3.91%	2.21%	2.80%	2.78%	1.65%	1.58%
Net charge-off ratio [7]	3.88%	2.25%	6.52%	0.29%	1.10%	0.93%	0.54%	0.59%	0.39%

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

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(2) 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.

(3) For the year ended December 31, 2007, certain fees for installment purchases previously recognized as installment and cash advance interest were recognized as merchant fees for the Woori Card and Kwangju Bank Visa Card credit cards issued by Woori Bank and Kwangju Bank, respectively. Corresponding amounts for 2005 and 2006 have been adjusted accordingly.

(4) 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 2.4% of our credit card receivables as of December 31, 2007.

(5) 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, 2005, 2006 and 2007:

	As of December 31,		
	2005	2006	2007
	(in billions of Won)		
Restructured loans	(Won) 62	(Won) 21	(Won) 9

(6) 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.

(7) 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.

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 down payment 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, 2007, the total amount of our restructured loans was (Won)9 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.

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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 minimum commission of (Won)900 and a maximum of (Won)1,300 or 0.5% of the withdrawal amount per withdrawal.

We also generally charge a basic annual membership fee of (Won)2,000 to (Won)10,000 for regular cards, (Won)5,000 to (Won)10,000 for gold cards and (Won)10,000 to (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, 2007, we charged merchants an average of 2.25% of their respective total transaction amounts, in the case of Woori Bank, and 2.48% and 2.37%, respectively, in the case of Kyongnam Bank and Kwangju Bank. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

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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.

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, 2007, Woori Investment & Securities had consolidated total assets of (Won)15,173 billion, consolidated total liabilities of (Won)12,577 billion and consolidated total shareholders equity of (Won)2,596 billion, on a Korean GAAP basis. For the year ended December 31, 2007, Woori Investment & Securities generated consolidated revenues of (Won)3,078 billion and consolidated net income of (Won)263 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) 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, 2007, 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)47,624 billion and represented 20.6% 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, 2007, we held debt securities with a total book value of (Won)41,597 billion, of which:

- held-to-maturity debt securities accounted for (Won)8,216 billion, or 19.8%;

available-for-sale debt securities accounted for (Won)24,396 billion, or 58.6%; and

trading debt securities accounted for (Won)8,985 billion, or 21.6%.

Of these amounts, as of December 31, 2007, debt securities issued by the Korean government and government agencies amounted to (Won)6,413 billion, or 78.1%, of our held-to-maturity debt securities, (Won)10,553 billion, or 43.3%, of our available-for-sale debt securities, and (Won)2,388 billion, or 26.6%, of our trading debt securities.

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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, 2007:

equity securities in our available-for-sale portfolio had a book value of (Won)1,653 billion, or 6.1%, of our available-for-sale portfolio; and

equity securities in our trading portfolio had a book value of (Won)323 billion, or 3.3%, 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.

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, 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	3,040	43	(29)	3,054
Financial institutions	2,449	9	(5)	2,453
Asset backed securities	623	2	(2)	623
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	40			40
Financial institutions	1,274	1	(7)	1,268
Asset backed securities	81	9		90
Foreign governments	55	1		56
Total held-to-maturity securities	(Won) 9,638	(Won) 42	(Won) (67)	(Won) 9,613

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	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	6,939	38	(109)	6,868
Financial institutions	5,681	3	(9)	5,675
Asset backed securities	1,479	2	(11)	1,470
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	22			22
Financial institutions	1,415	2	(5)	1,412
Asset backed securities	55	2		57
Foreign governments	83		(1)	82
Total held-to-maturity securities	(Won) 8,614	(Won) 18	(Won) (37)	(Won) 8,595

	As of December 31, 2007			
	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) 10,587	(Won) 13	(Won) (47)	(Won) 10,553
Corporate	6,984	43	(120)	6,907
Financial institutions	5,325	2	(24)	5,303
Asset backed securities	1,616	4	(5)	1,615
Foreign governments	18			18
Subtotal	24,530	62	(196)	24,396
Equity securities	636	1,035	(18)	1,653
Beneficiary certificates (1)	1,139	47		1,186
Total available-for-sale securities	(Won) 26,305	(Won) 1,144	(Won) (214)	(Won) 27,235
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,413	(Won) 3	(Won) (73)	(Won) 6,343
Corporate	56	1		57
Financial institutions	1,586		(27)	1,559
Asset backed securities	45			45
Foreign governments	116			116

Total held-to-maturity securities	(Won) 8,216	(Won) 4	(Won) (100)	(Won) 8,120

(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.

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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). Our trading volume was (Won)71,149 billion in 2005, (Won)103,589 billion in 2006 and (Won)230,758 billion in 2007, respectively. Our aggregate net trading revenue from derivatives and foreign exchange spot contracts for the years ended December 31, 2005, 2006 and 2007 was (Won)168 billion, (Won)290 billion and (Won)14 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;
- commodity derivatives, which we began providing through Woori Bank in 2007 to customers that wish to hedge their commodities exposure; and
- credit derivatives, which we provide to financial institutions that wish to hedge existing credit exposures or take on credit exposure to generate revenue.

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.

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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,					
	2005		2006		2007	
	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) 13	(Won) 13	(Won) 1	(Won) 2	(Won) 6	(Won) 4
Foreign exchange derivatives	609	535	1,043	931	1,832	1,732
Interest rate derivatives	120	189	160	292	525	637
Equity derivatives	73	602	142	471	55	383
Credit derivatives [(1)]			2			128
Commodity derivatives			5	5	95	93
Other derivatives					4	4
Total	(Won) 815	(Won) 1,339	(Won) 1,353	(Won) 1,701	(Won) 2,517	(Won) 2,981

(1) In connection with our credit derivatives outstanding, 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 provides 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 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, which was terminated by mutual agreement in March 2008.

In August 2006, Woori Bank entered into another agreement with Macquarie Bank, pursuant to which Macquarie Bank provides 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.

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 and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2007, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)9,369 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 2007, Woori Investment & Securities generated investment banking revenue under Korean GAAP of approximately (Won)27 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 2007, Woori Bank generated investment banking revenue of approximately (Won)949 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, 2007, Woori Investment & Securities had 118 branches. We also provide securities brokerage services through the Internet and through our home trading system software platform via the following systems: mug, mug stox, mug Q-trading, Web-trading, mug PDA, mug mTrading, Woori Mobile Bank and mug Mascot. In 2007, Woori Investment & Securities generated fee income under Korean GAAP of approximately (Won)418 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.

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

	As of December 31,		
	2005	2006	2007
		(in millions of US$)	
Total foreign currency assets	US$ 14,634	US$ 14,902	US$ 18,603
Foreign currency borrowings			
Call money	109	962	991
Secured borrowings			
Long-term borrowings	3,314	5,690	6,226
Short-term borrowings	5,505	7,736	7,678

Total foreign currency borrowings	US$ 8,929	US$ 14,388	US$ 14,895

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The table below sets forth the overseas subsidiaries and branches of Woori Bank currently in operation as of December 31, 2007.

Business Unit[(1)]	Location
Subsidiaries	
Woori America Bank	United States
P.T. Bank Woori Indonesia	Indonesia
Woori Global Markets Asia Limited	China (Hong Kong)
Woori Bank (China) Limited	China
Branches, Agencies and Representative Offices	
London Branch	United Kingdom
Tokyo Branch	Japan
Singapore Branch	Singapore
Hong Kong Branch	China (Hong Kong)
Shanghai 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
New Delhi Representative Office	India

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

In addition, Woori America Bank currently operates 18 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$1,043 million as of December 31, 2007 and net income of US$12.8 million in 2007. 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 the overseas 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, such overseas branches and subsidiaries of Woori Bank also engage in the investment and trading of securities of foreign issuers.

In November 2007, Woori Bank established a local subsidiary in China, Woori Bank (China) Limited, which currently has branches (including one sub-branch) in Beijing, Shanghai, Shenzhen and Suzhou. Woori Bank also established a local subsidiary in Russia, Zao Woori Bank, in January 2008. In addition, we have in recent years entered into various memoranda of understanding and strategic alliances with local banks in overseas markets, including China and Vietnam, in order to pursue business cooperation activities in such markets such as joint marketing efforts and information exchange.

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

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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)13 billion in 2005, (Won)24 billion in 2006 and (Won)25 billion in 2007.

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.

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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,		
	2005	2006	2007
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 14	(Won) 15	(Won) 17
Principal guaranteed trusts	1,896	1,912	1,860
Performance trusts	4,330	7,572	11,252
Total	(Won) 6,241	(Won) 9,499	(Won) 13,129

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, 2007, under Korean GAAP, our money trusts had invested in securities with an aggregate book value of (Won)5,808 billion, which accounted for 44.2% of our money trust assets. Debt securities accounted for (Won)2,639 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, 2007, equity securities held by our money trusts amounted to (Won)564 billion on a Korean GAAP basis, which accounted for approximately 9.7% of our money trust assets. Of this amount, (Won)350 billion was from specified money trusts and the remaining (Won)214 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, 2007, under Korean GAAP, our money trusts had made loans in the aggregate principal amount of (Won)150 billion (excluding loans to our banking operations of (Won)4,088 billion), which accounted for approximately 0.5% 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, 2007, 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 2007, the amount of such payments made by us was less than (Won)1 billion in the aggregate, which was approximately 1% of the gains we received from other money trusts and accordingly was more than offset by such gains.

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).

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 2007, 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, 2007, the balance of our property trusts totaled (Won)19,724 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,		
	2005	2006	2007
		(in billions of Won)	
Equity funds	(Won) 736	(Won) 1,152	(Won) 2,980
Bond funds	3,263	1,446	2,021
Hybrid funds	1,311	3,169	1,028
Money market funds	6,770	8,938	4,695
Alternative investment funds	882	1,845	2,350
Total	(Won) 12,962	(Won) 16,550	(Won) 13,074

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.

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Fees from our investment trust management services amounted to (Won)19 billion in 2005, (Won)28 billion in 2006 and (Won)41 billion in 2007.

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 1,118 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, 2007, our fee income from such services was (Won)8 billion.

Other Businesses

Merchant Banking

We engage in merchant banking operations through Woori Bank. 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

cash management account (CMA) services, which offer accounts into which the accountholder may freely deposit or withdraw funds and for which returns from an investment portfolio purchased with such deposited funds are distributed as interest.

Recently, we have focused our merchant banking operations on providing short-term funds to public institutions and financially sound corporations in order to improve our asset quality and increase our income and profitability.

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. In April 2008, we were selected to be the lead manager of the National Housing Fund. 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, 2007, outstanding housing loans from the National Housing Fund amounted to approximately (Won)60.2 trillion, of which we originated approximately (Won)10.1 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. We received total fees of approximately (Won)41 billion for managing the National Housing Fund in each of 2006 and 2007.

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 market a wide range of bancassurance products. In 2007, we generated fee income of approximately (Won)143 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 23 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Korea Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plans 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. Woori Bank also plans to enter into bancassurance marketing arrangements with, Woori Aviva Life Insurance, in which we acquired a 51% interest in April 2008.

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity seeks to 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.

Consumer Finance

We provide consumer finance services through Woori Financial Co., Ltd. We acquired a 51.4% stake in Woori Financial (formerly known as Hanmi Capital Co., Ltd.) in September 2007. Woori Financial provides leases and loans for various products, including automobiles, heavy machineries and medical equipments, as well as microlending services. We expect Woori Financial to expand our customer base by providing a variety of non-banking financial services to retail customers as well as synergies through coordinated business operations with our other subsidiaries, including Woori Bank.

Life Insurance

We provide life insurance products and services through Woori Aviva Life Insurance . We acquired a 51.0% stake in Woori Aviva Life Insurance (formerly known as LIG Life Insurance) in April 2008. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 91.7% interest in Woori Aviva Life Insurance, which we expect to account for as an equity method investee under U.S. GAAP. Woori Aviva Life Insurance provides a variety of individual and group life insurance products, including health insurance, whole life insurance, savings-type insurance and pension insurance. Woori Aviva Life Insurance seeks to become a leading life insurance company in Korea by combining our extensive distribution and marketing network and large customer base with the life insurance industry expertise and experience provided by Aviva plc, and we expect that Woori Aviva Life Insurance will allow us to further our strategy of diversifying our non-banking revenue base to cover a full range of financial services and products as a comprehensive financial services provider.

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 focusing on retail customers and small- and medium-sized enterprises in recent years, although they are beginning to increase their exposure to large corporate borrowers, 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 lower profitability and asset quality problems previously experienced with respect to credit card receivables.

In addition, we believe regulatory reforms, including the enactment of the Financial Investment Services and Capital Market Act in 2007, 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, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank s merger with Shinhan Bank in April 2006, as well as the proposed acquisition of Korea Exchange Bank by HSBC. 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, 2007, the balance of our total loan portfolio was (Won)159,885 billion, a 19.6% increase from (Won)133,740 billion as of December 31, 2006. As of December 31, 2007, 88.6% of our total loans were

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Won-denominated loans and 11.4% of our total loans were denominated in other currencies. Of the (Won)18,209 billion of foreign currency-denominated loans as of that date, approximately 30.6% 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,					
	2003	2004	2005	2006	2007	2007
	(in billions of Won)					(%)
Domestic:						
Corporate:						
Commercial and industrial	(Won) 40,642	(Won) 42,445	(Won) 47,232	(Won) 58,766	(Won) 76,050	47.6%
Lease financing	222	132	75	35	272	0.2
Trade financing	6,922	7,073	7,172	8,027	8,754	5.5
Other commercial	4,254	4,270	4,727	5,263	6,496	4.0
Total corporate	52,040	53,920	59,206	72,091	91,572	57.3
Consumer:						
General purpose household [1]	26,758	27,618	34,906	51,637	56,176	35.1
Mortgage	3,599	4,684	5,458	4,068	3,248	2.0
Total consumer	30,357	32,302	40,364	55,705	59,424	37.1
Credit cards	3,964	2,128	2,092	2,405	3,325	2.1
Total domestic	86,361	88,350	101,662	130,201	154,321	96.5
Foreign:						
Corporate:						
Commercial and industrial	(Won) 1,884	(Won) 1,730	(Won) 2,316	(Won) 3,341	(Won) 5,327	3.3
Trade financing	63	104	76	112	138	0.1
Total corporate	1,947	1,834	2,392	3,453	5,465	3.4
Consumer	84	305	76	86	99	0.1
Total foreign	2,031	2,139	2,468	3,539	5,564	3.5
Total gross loans	88,392	90,489	104,130	133,740	159,885	100.0
Less: Unearned income	(26)	(14)	(7)	(5)	(17)	0.0
Total loans	(Won) 88,366	(Won) 90,475	(Won) 104,123	(Won) 133,735	(Won) 159,868	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, and Kyongnam Bank and Kwangju Bank each determines its respective limit using the borrower s credit rating under its own standardized credit evaluation system based on the CREPIA system. Each of our banking subsidiaries may adjust its respective limit if such limit 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.

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20 Largest Exposures by Borrower

As of December 31, 2007, our exposures to our 20 largest borrowers totaled (Won)30,763 billion and accounted for 13.7% of our total exposures. The following table sets forth our total exposures to those borrowers as of that date:

Company (credit rating) [1]	Loans: Won Currency	Loans: 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)	(Won)	(Won)	(Won) 10,021	(Won)	(Won)	(Won) 10,021	(Won)	(Won)
SH Corporation (A1)	1,220			1,122			2,342		
Industrial Bank of Korea (AAA)	887		7	1,440			2,334		
Korea Deposit Insurance Corporation [3]	26			1,625			1,651		
Korea Development Bank (AAA)	51			1,571		9	1,631		
Kookmin Bank Co., Ltd. (AAA)	256		20	1,158			1,434	77	
Samsung Electronics Co., Ltd. (AAA)	104	1,107	35				1,246		
Sung-Dong Ship Marin Co., Ltd [3]	99	2			982		1,083	651	
STX Shipbuilding Co., Ltd. (A3)		2	1		1,079		1,082	20	
Daewoo Engineering & Construction Co., Ltd. (A2)	455		300	128	101		984		
Hyundai Engineering & Construction Co., Ltd. (A2)	140	39	495	77	94		845	33	
SPP Shipbuilding Co., Ltd. [3]	15				805		820	14	
POSCO (AAA)	11	56	507		186	23	783		
Korea Exchange Bank (AAA)	23		2	701			726		
Samsung Card Co., Ltd. (AA)	450			203	5		658		
Hyundai Heavy Industries Co., Ltd. (A1)			5		649		654		
Kumho Industrial Co., Ltd. (A3)	200	145	1	299	2		647	105	
Samsung Heavy Industries Co., Ltd. (A1)	1		3		620		624		
Hyosung Corporation (A2)	205	227	1	114	74		621	123	

Kia Motors Corporation (A1)	22	430	16	95	14		577		
Total	(Won) 4,165	(Won) 2,008	(Won) 1,393	(Won) 18,554	(Won) 4,611	(Won) 32	(Won) 30,763	(Won) 1,023	(Won)

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2007: 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 Services Commission s asset classification criteria.

(3) Credit ratings unavailable.

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As of December 31, 2007, eleven 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, 2007, 13.8% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2007, 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)					
Hyundai Motors	(Won) 947	(Won) 2,377	(Won) 25	(Won) 631	(Won) 250	(Won)	(Won) 4,230	(Won) 317	(Won)	(Won)
Samsung	697	1,633	223	426	900		3,879	59		
Kumho Asiana	915	1,084	303	464	166		2,932	488		
LG	455	1,104	14	82	208		1,863	116		
STX	143	233	1	59	1,168		1,604	61		
Hyundai Heavy Industries			6		1,471		1,477			
Doosan	110	563	3	96	372		1,144	73		
POSCO	95	206	507	9	293	23	1,133			
SK	417	189	132	200	154	23	1,115	35		
Hanhwa	461	303	2	218	125		1,109	132		
Total	(Won) 4,240	(Won) 7,692	(Won) 1,216	(Won) 2,185	(Won) 5,107	(Won) 46	(Won) 20,486	(Won) 1,281	(Won)	(Won)

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

Loan Concentration by Industry

The following table shows, as of December 31, 2007, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending:

	Aggregate corporate loan balance (in billions of Won)	Percentage of total corporate loan balance
Industry		
Manufacturing	(Won) 33,235	34.3%
Retail and wholesale	11,927	12.3
Hotel, leisure or transportation	5,730	5.9

Government and government agencies		183	0.2
Construction		10,524	10.8
Financial and insurance		5,544	5.7
Other		29,894	30.8
Total	(Won)	97,037	100.0%

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Loan Concentration by Size of Loans

The following tables show, as of December 31, 2007, the aggregate balances of our loans by outstanding loan amount:

Corporate

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Commercial and industrial loans		
Up to (Won)100 million	(Won) 6,333	4.0%
Over (Won)100 million to (Won)1 billion	26,494	16.6
Over (Won)1 billion to (Won)10 billion	19,607	12.3
Over (Won)10 billion to (Won)50 billion	13,817	8.6
Over (Won)50 billion to (Won)100 billion	4,664	2.9
Over (Won)100 billion	5,135	3.2
Sub-total	76,050	47.6
Lease financing loans		
Up to (Won)100 million	110	0.0
Over (Won)100 million to (Won)1 billion	121	0.0
Over (Won)1 billion to (Won)10 billion	24	0.0
Over (Won)10 billion to (Won)50 billion		
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	255	0.1
Trade financing loans		
Up to (Won)100 million	1,276	0.8
Over (Won)100 million to (Won)1 billion	3,317	2.1
Over (Won)1 billion to (Won)10 billion	2,832	1.8
Over (Won)10 billion to (Won)50 billion	1,266	0.8
Over (Won)50 billion to (Won)100 billion	63	0.0
Over (Won)100 billion		
Sub-total	8,754	5.5
Other commercial loans		
Up to (Won)100 million	1,085	0.7
Over (Won)100 million to (Won)1 billion	1,872	1.2
Over (Won)1 billion to (Won)10 billion	1,716	1.1
Over (Won)10 billion to (Won)50 billion	1,100	0.7
Over (Won)50 billion to (Won)100 billion	722	0.5
Over (Won)100 billion		
Sub-total	6,496	4.1
Foreign commercial and industrial loans		
Up to (Won)100 million	48	0.0

Over (Won)100 million to (Won)1 billion	363	0.2
Over (Won)1 billion to (Won)10 billion	1,733	1.1
Over (Won)10 billion to (Won)50 billion	1,882	1.2
Over (Won)50 billion to (Won)100 billion	412	0.3
Over (Won)100 billion	889	0.6
Sub-total	5,327	3.3
Foreign trade financing loans		
Up to (Won)100 million	7	0.0
Over (Won)100 million to (Won)1 billion	18	0.0
Over (Won)1 billion to (Won)10 billion	92	0.1
Over (Won)10 billion to (Won)50 billion	21	0.0
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	138	0.1

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Consumer

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
General purpose household loans [1]		
Up to (Won)10 million	4,003	2.5
Over (Won)10 million to (Won)50 million	14,147	8.8
Over (Won)50 million to (Won)100 million	12,806	8.0
Over (Won)100 million to (Won)500 million	21,558	13.5
Over (Won)500 million to (Won)1 billion	2,527	1.6
Over (Won)1 billion	1,135	0.7
Sub-total	56,176	35.1
Mortgage loans		
Up to (Won)10 million	25	0.0
Over (Won)10 million to (Won)50 million	851	0.5
Over (Won)50 million to (Won)100 million	1,137	0.7
Over (Won)100 million to (Won)500 million	808	0.5
Over (Won)500 million to (Won)1 billion	421	0.3
Over (Won)1 billion	6	0.0
Sub-total	3,248	2.0
Credit cards		
Up to (Won)10 million	2,790	1.7
Over (Won)10 million to (Won)50 million	214	0.1
Over (Won)50 million to (Won)100 million	35	0.0
Over (Won)100 million	286	0.2
Sub-total	3,325	2.1
Foreign consumer loans		
Up to (Won)10 million	1	0.0
Over (Won)10 million to (Won)50 million	1	0.0
Over (Won)50 million to (Won)100 million	3	0.0
Over (Won)100 million to (Won)500 million	43	0.0
Over (Won)500 million to (Won)1 billion	22	0.0
Over (Won)1 billion	29	0.0
Sub-total	99	0.1
Total	(Won) 159,868	100.0%

(1) Includes home equity loans.

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Maturity Analysis

The following table sets out, as of December 31, 2007, 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) 48,187	(Won) 21,902	(Won) 5,961	(Won) 76,050
Lease financing	57	196	2	255
Trade financing	8,717	37	0	8,754
Other commercial	4,024	1,374	1,098	6,496
Total corporate	60,985	23,509	7,061	91,555
Consumer				
General purpose household [(1)]	25,514	10,501	20,161	56,176
Mortgage	1,096	945	1,207	3,248
Credit cards	3,213	112	0	3,325
Total consumer	29,823	11,558	21,368	62,749
Total domestic	90,808	35,067	28,429	154,304
Foreign				
Corporate				
Commercial and industrial	2,336	1,996	995	5,327
Lease financing				
Trade financing	138			138
Other commercial				
Total corporate	2,474	1,996	995	5,465
Consumer:				
Other consumer	1	1	97	99
Total foreign	2,475	1,997	1,092	5,564
Total loans	(Won) 93,283	(Won) 37,064	(Won) 29,521	(Won) 159,868

(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, 2007, 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) 8,940	(Won) 396	(Won) 9,336
Variable or adjustable rates [2]	54,557	2,693	57,250
Total loans	(Won) 63,497	(Won) 3,089	(Won) 66,586

(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.

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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 Services 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 Services Commission. Credit card receivables are subject to classification based on the number of days past due, as required by the Financial Services 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.

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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 Services 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 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)211 billion, (Won)216 billion and (Won)207 billion for 2005, 2006 and 2007, 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 2005, 2006 and 2007 was (Won)109 billion, (Won)102 billion and (Won)118 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

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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,														
	2003			2004			2005			2006			2007		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	
	(in billions of Won)														
d for ual															
e	(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	(Won) 1,007	(Won) 1,147	(Won) 4	(W
r [1]	2,336		2,336	1,763		1,763	1,485	1	1,486	1,560		1,560	1,685	1	
	4,068	143	4,211	2,965	2	2,967	2,511	12	2,523	2,561	6	2,567	2,832	5	
ch ally one ore or															
e	26		26	28		28	34		34	23	0	23	177		
r	16		16	20		20	47		47	29	0	29	41		
	42		42	48		48	81		81	52		52	218		
	(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	(Won) 2,619	(Won) 3,050	(Won) 5	(W

(1) Includes credit card balances of (Won)1,304 billion, (Won)216 billion, (Won)95 billion, (Won)60 billion and (Won)199 billion as of December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

(2) Includes accruing loans that are contractually past due 90 days or more in the amount of (Won)4 billion, (Won)3 billion, (Won)2 billion and (Won)4 billion as of December 31, 2004, 2005, 2006 and 2007, 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.

	Normal		1-3 months		3-6 months		More than 6 months		Total	
As of December 31,	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
2003	(Won) 86,194	97.5%	(Won) 623	0.7%	(Won) 956	1.1%	(Won) 593	0.7%	(Won) 88,366	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
2007	157,985	98.8	1,255	0.8	278	0.2	350	0.2	159,868	100.0

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. 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 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.

As the Corporate Restructuring Promotion Act expired on December 31, 2005 and no other law replacing this Act or with similar effect was enacted, 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. In July 2007, the National Assembly of Korea, instead of passing such amendment bill, adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective in November 2007. The New Corporate Restructuring Promotion Act contains provisions almost identical to those in the Corporate Restructuring Promotion Act. The main differences between the Corporate Restructuring Promotion Act and the New Corporate Restructuring Promotion Act are: (i) when debts are converted into shares of the borrower in the process of restructuring, the Corporate Restructuring Promotion Act required that a transferee of any such shares agree to be bound by the terms of the restructuring, whereas under the New Corporate Restructuring Promotion Act, such requirement does not apply if a transferor of such shares holds more than 50% plus one share of the total voting shares of the borrower after such transfer; (ii) under the New Corporate Restructuring Promotion Act, creditor financial institutions are no longer required to perform periodic assessments of credit risks of the borrower; and (iii) under the New Corporate Restructuring Promotion Act, creditor financial institutions are no longer required to advise a borrower which is likely to show signs of insolvency (as determined by such borrower s principal creditor financial institution following a credit risk assessment) to take measures to improve its business management, as was the case under the Corporate Restructuring Promotion Act.

The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2010. However, so far as a creditor financial institution gives notice to convene a meeting of the creditors committee regarding a restructuring of a borrower prior to December 31, 2010, the New Corporate Restructuring Promotion Act will continue to apply to such restructuring until it is completed or discontinued. The New Corporate Restructuring Promotion Act provides that any restructuring begun under the Corporate Restructuring Promotion Act will be deemed to continue under the New Corporate Restructuring Promotion Act.

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, 2007, (Won)359 billion, or 0.2%, of our total loans and debt securities were in workout or restructuring. This included (Won)230 billion of loans to and debt securities of large corporate borrowers in workout or restructuring and (Won)129 billion of loans to and debt securities of small- and medium-sized enterprises in workout or restructuring, which represented 0.11% and 0.06% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout

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or restructured loans. At Woori Bank, for example, the Corporate Restructuring Department manages its workout and restructured loans. Upon approval of a workout or restructuring plan, a credit exposure is 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, 2007, our ten largest exposures that were in workout or restructuring, including composition or court receivership:

	Loans									
Company (Credit Rating)[1]	**Won Currency**	**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) 77	(Won) 37	(Won) 3	(Won)	(Won) 9	(Won)	(Won) 126	(Won) 57	(Won) 109	(Won) 52
Hyundai Corporation (A3-)		40	115		29		184			
Neo Steel Co.,Ltd.[4]	58						58	21	58	24
Woongjin Chemical Co., Ltd. (B)		7	30				37	29	4	2
Saehan Media Co., Ltd. (C)		27			4		31		15	12
Pantech Co., Ltd. (C)	25						25		15	7
Pantech&Curitel Communications, Inc. (C)	15		2				17	1		9
Sewon Engineering Co., Ltd. [4]	10				4		14	10	11	2
Ilhwa Wool IND. Co., Ltd. (A3-)	11						11	7		
EZ Digital Co., Ltd. [4]		7					7	2		6
Total	(Won) 196	(Won) 118	(Won) 150	(Won)	(Won) 46	(Won)	(Won) 510	(Won) 127	(Won) 212	(Won) 114

(1) Credit rating as of December 31, 2007, 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 Services 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,														
	2003			2004			2005			2006			2007		
	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) 363	(Won) 3	(Won) 366	(Won) 44	(Won) 3	(Won) 47	(Won) 314		(Won) 314	(Won) 251		(Won) 251	(Won) 329		(Won) 329

For 2007, interest income that we would have recorded under the original contract terms of restructured loans amounted to (Won)22 billion, of which we reflected (Won)11 billion as interest income for 2007.

Potential Problem Loans

As of December 31, 2007, we had (Won)1,349 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, 2007, 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 Services 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,				
	2003	**2004**	**2005**	**2006**	**2007**
	(in billions of Won, except percentages)				
Total non-performing loans	(Won) 2,594(1)	(Won) 2,071(2)	(Won) 1,369(3)	(Won) 1,354(4)	(Won) 1,121(5)
As a percentage of total loans	2.9%	2.3%	1.3%	1.0%	0.7%

(1) 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.

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

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

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

(5) Excludes (Won)5 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.

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

	As of December 31,									
	2003		2004		2005		2006		2007	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	(Won) 1,046	40.3%	(Won) 1,118	54.0%	(Won) 802	58.6%	(Won) 783	57.9%	(Won) 788	70.3%
Lease financing									4	0.4
Trade financing	202	7.8	228	11.0	76	5.6	102	7.5	45	4.0
Other commercial	193	7.4	92	4.5	59	4.3	65	4.8	4	0.4
Total corporate	1,441	55.5	1,438	69.5	937	68.4	950	70.2	841	75.1
Consumer										
General purpose household [(1)]	302	11.6	383	18.5	281	20.5	308	22.7	241	21.5
Mortgage	94	3.6	115	5.6	97	7.1	54	4.0		
Total consumer	396	15.2	498	24.1	378	27.6	362	26.7	241	21.5
Credit cards	673	26.0	126	6.1	46	3.4	33	2.4	36	3.2
Total domestic	2,509	96.7	2,062	99.7	1,361	99.4	1,345	99.3	1,118	99.7
Foreign										
Corporate										
Commercial and industrial	84	3.3	9	0.3	8	0.7	8	0.6	3	0.3
Lease financing										
Trade financing							1	0.1		
Other commercial										
Total corporate	84	3.3	9	0.3	8	0.7	9	0.7	3	0.3
Consumer										
Total foreign	84	3.3	9	0.3	8	0.7	9	0.7	3	0.3
Total non- performing loans	(Won) 2,594	100.0%	(Won) 2,071	100.0%	(Won) 1,369	100.0%	(Won) 1,354	100.0%	(Won) 1,121	100.0%

(1) Includes home equity loans.

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Top 20 Non-Performing Loans. As of December 31, 2007, our 20 largest non-performing loans accounted for 26% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans:

	Gross principal outstanding	Allowance for loan losses	Collateral [1]	Industry
		(in billions of Won)		
Borrower A	(Won) 100	(Won) 49	(Won) 57	Manufacturing
Borrower B	58	24	21	Manufacturing
Borrower C	31	15	1	Construction
Borrower D	19	9		Manufacturing
Borrower E	15	7		Manufacturing
Borrower F	11	12		Construction
Borrower G	11	2	10	Manufacturing
Borrower H	5	1	5	Construction
Borrower I	4	2	2	Manufacturing
Borrower J	4	5	29	Manufacturing
Borrower K	4	1	4	Hotel, leisure or transportation
Borrower L	4	1	3	Manufacturing
Borrower M	4	4	2	Construction
Borrower N	4	1	3	Other
Borrower O	4	1	4	Construction
Borrower P	4	1	4	Construction
Borrower Q	4	1	4	Hotel, leisure or transportation
Borrower R	3	1	3	Hotel, leisure or transportation
Borrower S	3	2	2	Manufacturing
Borrower T	3	3		Construction
Total	(Won) 295	(Won) 142	(Won) 154	

(1) The value of collateral is appraised based on future cash flow and observable market price.

Non-Performing Loan Strategy

One of our goals is to improve our asset quality, in part by reducing our non-performing loans. We have completed in 2007 the standardization of the credit risk management systems of our subsidiaries, which we believe will reduce our risks relating to future non-performing loans. Our credit rating systems are designed to prevent our subsidiaries from extending new loans to high-risk borrowers as determined by their credit rating. Our credit monitoring systems are designed to bring any sudden increase in a borrower s credit risk to the attention of our subsidiaries, which then closely monitor such loans. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management.

Each of our subsidiaries has one or more units that are responsible for managing non-performing loans. At Woori Bank, for example, the Credit Management and Collection Department and the Corporate Restructuring Department generally oversee the process for resolving non-performing loans transferred to them by other Woori Bank business units. We believe that by centralizing the management of our non-performing loans within each subsidiary, we can become more effective in dealing with the issues relating to these loans by pooling institutional knowledge and creating a more specialized workforce.

When a loan becomes non-performing, the units at our banking subsidiaries that are responsible for monitoring non-performing loans will begin a due diligence review of the borrower s assets, send a notice demanding payment or stating that we will take legal action, and prepare for legal action. At the same time, we initiate our non-performing loan management process, which begins with:

- identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;
- identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and
- on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

Once we have confirmed the details of a non-performing loan, we make efforts to recover amounts owed to us. Methods for resolving non-performing loans include the following:

- commencing collection proceedings;
- commencing legal actions to seize collateral;
- writing off these amounts, transferring them to specific subsidiaries in charge of collections and authorizing those subsidiaries to recover what they can with respect to these amounts or to sell these loans to third parties; and
- with respect to large corporations, commencing or participating in voluntary workouts or restructurings mandated by Korean courts.

In addition to making efforts to collect on our non-performing loans, we also undertake measures to reduce the overall level of our non-performing loans. These measures include:

- selling our non-performing loans to special purpose companies established in connection with our joint ventures with several financial institutions; and
- selling our non-performing loans to third parties, including KAMCO.

See Sales of Non-Performing Loans. We generally expect to suffer a partial loss on loans that we sell or securitize, to the extent such sales and securitizations are recognized as such under U.S. GAAP.

Foreclosure and Collateral. We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2005, 2006 and 2007, we foreclosed on collateral we obtained with respect to loan balances representing approximately 1.0%, 0.5% and 0.3%, respectively, of our average interest-bearing loan balances in each of those periods. We believe, based on our general understanding of the U.S. banking industry, that we generally foreclose on collateral somewhat less frequently than similarly situated U.S. banks.

Korean financial institutions, including us, maintain general policies to assess a potential customer s eligibility for loans based on that entity s credit quality, rather than requiring a particular level of collateral, especially in the case of large corporate borrowers. As a result, the ratio of our collateral to non-performing corporate loans is relatively low when compared with our total exposures. For secured consumer loans, however, we generally impose limits on loan amounts based on the collateral we receive. See Consumer Banking Lending Activities.

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We reflect this collateral level when we estimate the future cash flow for our loans, which we calculate using a discounted cash flow method. With respect to loans to borrowers that we do not believe will be going concerns in the future, the lower collateral ratio has a direct effect on cash flow estimates and results in a higher level of allowances. With respect to loans to borrowers that we expect to be going concerns, the lower collateral ratio has an effect on cash flow estimates but we also consider other factors, including future operating income and future asset disposals and restructuring, in determining allowance levels. Accordingly, for these latter borrowers, the effect of lower collateral levels on allowances is mitigated by other characteristics of the borrower, and that lower collateral level will not necessarily result in a higher level of allowances.

Sales of Non-Performing Loans

The overall asset quality of our loan portfolio has changed significantly in recent years as a result of sales of non-performing loans. These sales have been made primarily to KAMCO and to special purpose companies established as a result of joint ventures with several financial institutions.

The following table sets forth information regarding our sales of loans for the periods indicated:

	Year Ended December 31,								
	2005			2006			2007		
Purchaser	Principal Amount Sold	Sale Price	Gain (loss)	Principal Amount Sold	Sale Price	Gain (loss)	Principal Amount Sold	Sale Price	Gain (loss)
	(in billions of Won)								
KAMCO	(Won) 339	(Won) 223	(Won)	(Won) 90	(Won) 71	(Won)	(Won) 140	(Won) 111	(Won) 6
Joint venture special purpose companies	1,887	709		389	276		349	290	22
Others	2,709	1,319	(45)	175	27	1			
Total	(Won) 4,935	(Won) 2,251	(Won) (45)	(Won) 654	(Won) 374	(Won) 1	(Won) 489	(Won) 401	(Won) 28

Korea Asset Management Corporation. In December 1997, in response to difficulties faced by Korean financial institutions as a result of the severe economic downturn in Korea, the Korean government authorized KAMCO to purchase from those institutions certain assets (which were primarily classified as substandard or below) at discounted prices. From 1997 through December 31, 2007, we and our predecessor entities sold an aggregate of (Won)9,121 billion of substandard or below loans to KAMCO.

Pursuant to the terms of certain of these sales, KAMCO can require us to repurchase substandard or below loans we have sold to it in the event that:

- the underlying documentation of the loan is incomplete;

- there is a flaw in the perfection of any security interest underlying the loan; or certain litigation regarding the loan is pending.

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to KAMCO if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of KAMCO to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2007, the aggregate principal amount of loans subject to these repurchase rights was (Won)7 billion, and we recorded no liability relating to those loans.

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Joint Ventures. In April 2005, Woori Bank entered into a joint venture agreement with Merrill Lynch to dispose of approximately US$111 million of our precautionary loans. A special purpose company was established to purchase such loans from Woori Bank and to securitize such loans through the issuance of asset-backed securities.

In February 2006, Woori F&I entered into a joint venture arrangement with CRT9 Yugen Kaisha, a subsidiary of Shinsei Bank, to dispose of our substandard or below loans. Much like the joint venture with Merrill Lynch, a special purpose company was established to purchase such loans from us and to securitize such loans through the issuance of asset-backed securities. In connection with such arrangement, Woori F&I transferred 49% of its 100% interest in Woori CA Asset Management to CRT9 Yugen Kaisha pursuant to a share purchase agreement. Woori CA Asset Management was subsequently renamed Woori SB Asset Management and manages the substandard or below loans purchased from us by the special purpose company and receives asset management fees from the special purpose company, as well as a performance fee based on a percentage of asset resolutions.

Allocation of Allowances for Loan Losses

The following table presents, as of the dates indicated, the allocation of our allowances for loan losses by loan type:

	As of December 31,									
	2003		2004		2005		2006		2007	
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	(Won) 926	32.7%	(Won) 997	55.2%	(Won) 915	60.0%	(Won) 1,084	58.4%	(Won) 1,068	61.5%
Lease financing	2	0.1	3	0.2	1	0.1		0.0	15	0.9
Trade financing	222	7.8	209	11.5	85	5.6	128	6.9	88	5.1
Other commercial	140	4.9	92	5.1	67	4.4	119	6.4	69	4.0
Total corporate	1,290	45.5	1,301	72.0	1,068	70.1	1,331	71.7	1,240	71.4
Consumer										
General purpose household [1]	232	8.2	228	12.6	340	22.3	372	20.1	331	19.1
Mortgage	29	1.0	45	2.5	2	0.1	44	2.4	21	1.2
Total consumer	261	9.2	273	15.1	342	22.4	416	22.5	352	20.3
Credit cards	1,120	39.6	168	9.3	64	4.2	51	2.7	59	3.4
Total domestic	2,671	94.3	1,742	24.4	1,474	96.7	1,798	96.9	1,651	95.1
Foreign										
Corporate										
Commercial and industrial	161	5.7	45	2.5	50	3.2	55	2.9	58	3.3
Lease financing			15	0.9						
Trade financing			1	0.1	1	0.1	1	0.1	1	0.1
Other commercial										
Total corporate	161	5.7	61	3.5	51	3.3	56	3.0	59	3.4
Consumer	1		3	0.1			1	0.1	26	1.5
Total foreign	162	5.7	64	3.6	51	3.3	(Won) 57	3.1	(Won) 85	4.9

Total allowance for loan losses	(Won) 2,834	100.0%	(Won) 1,806	100.0%	(Won) 1,525	100.0%	(Won) 1,855	100.0%	(Won) 1,736	100.0%

(1) Includes home equity loans.

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The following table presents an analysis of the changes in our allowances for loan losses for the periods indicated:

	Year ended December 31,				
	2003	2004	2005	2006	2007
	(in billions of Won)				
Balance at the beginning of the period	(Won) 3,770	(Won) 2,834	(Won) 1,806	(Won) 1,525	(Won) 1,855
Provision for credit losses	2,313	652	308	509	219
Allowance relating to credit-related commitments transferred to loans	271	275	58	15	11
Allowance relating to loans acquired in connection with acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea	3			0	
Gross charge-offs					
Domestic					
Corporate					
Commercial and industrial	(676)	(357)	(173)	(86)	(175)
Lease financing	(9)	(1)		0	(2)
Trade financing	(231)	(26)	(34)	(13)	(28)
Other commercial	(191)	(63)	(54)	(9)	(19)
Total corporate	(1,108)	(447)	(261)	(108)	(224)
Consumer					
General purpose household [(1)]	(84)	(138)	(119)	(64)	(176)
Mortgage	(1)	(2)	(6)	(10)	(10)
Total consumer	(85)	(140)	(125)	(74)	(186)
Credit cards	(1,384)	(1,051)	(183)	(87)	(83)
Total domestic	(2,577)	(1,644)	(569)	(269)	(493)
Foreign	(159)	(1)	(3)	(2)	(18)
Allowance relating to loans sold	(1,653)	(613)	(276)	(90)	
Total gross charge-offs	(4,388)	(2,258)	(848)	(361)	(511)
Recoveries:					
Domestic					
Corporate					
Commercial and industrial	539	147	78	45	34
Lease financing		1	1	0	1
Trade financing	50	1	13	7	9
Other commercial	237	65	18	4	6
Total corporate	826	214	110	56	50
Consumer					
General purpose household	2	2	10	34	36
Mortgage and home equity				5	3
Total consumer	2	2	10	39	39
Credit cards	17	99	98	78	66
Total domestic	845	315	218	173	155
Foreign	2	7	4	1	6
Total recoveries	847	322	222	174	161

Net charge-offs	(3,542)	(1,936)	(626)	(187)	(350)
Allowance related to loans transferred to held-for-sale				0	
Allowance relating to disposal of Woori Securities			(15)	0	
Foreign exchange translation effects	18	(19)	(6)	(7)	1
Balance at the end of the period	(Won) 2,834	(Won) 1,806	(Won) 1,525	(Won) 1,855	(Won) 1,736
Ratio of net charge-offs during the period to average loans outstanding during the period [2]	4.17%	2.16%	0.65%	0.16%	0.37%

[1] Includes home equity loans.

[2] Includes amounts relating to allowance related to loans transferred to held-for-sale.

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Loan Charge-Offs

Each of our subsidiaries adheres to the credit approval process we have implemented, which includes assessing credit risk before extending loans and monitoring outstanding loans, in order to minimize loans that must be charged off. To the extent charge-offs are required, our subsidiaries follow charge-off policies aimed at maximizing accounting transparency, minimizing any waste of resources in managing loans which have a low probability of being collected and reducing our non-performing loan ratio.

Loans To Be Charged Off. Our subsidiaries charge off loans that are deemed to be uncollectible by virtue of their falling under any of the following categories:

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for more than four payment cycles and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations), and those that have been overdue for more than six months;
- payments outstanding on corporate and consumer loans (other than credit card receivables) that have been overdue for more than 12 months, and those on unsecured consumer loans that have been overdue for more than six months; or
- the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval. In order to charge off corporate loans under Korean GAAP, in the case of Woori Bank, an application for a charge-off must be submitted by a branch to the Credit Management and Collection Department promptly and, in any event, within one month after the corporate loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, Woori Bank must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, Woori Bank refers the approval of the charge-off by the Credit Management and Collection Department to its Audit Committee for their review to ensure compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once Woori Bank receives approval from the Financial Supervisory Service, Woori Bank must also obtain approval from its senior management to charge off those loans. With respect to corporate loans under U.S. GAAP, we follow a similar procedure (although we will not seek approval from the Financial Supervisory Service).

With respect to unsecured consumer loans and credit card balances, we follow a different process to determine which unsecured consumer loans and credit card balances should be charged-off, based on the length of time those loans or balances are past due. Under Korean GAAP, we charge-off unsecured consumer loans which are 12 months overdue and credit card balances which have been overdue for more than four payment cycles and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations). Under U.S. GAAP, we follow a similar procedure, in addition to charging off any unsecured consumer loans or credit card balances which have not been charged off under Korean GAAP but are six months overdue.

Treatment of Loans Charged Off. Once loans are charged off, we classify them as charged-off loans. In the case of Woori Bank, these loans are then transferred to a wholly-owned subsidiary, Woori Credit Information, that is in charge of collections. It will attempt to recover amounts owed or to sell these loans to third parties.

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In the case of collateralized loans, our general policy is to petition a court to foreclose and sell the collateral through a court-supervised auction if a collateralized loan becomes overdue for more than three months. If a debtor still fails to repay and the court grants its approval for foreclosure, we will sell the collateral, net of expenses incurred from the auction.

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

In light of the rapid increase in delinquencies in credit card and other consumer credit in recent years, and concerns regarding potential social issues posed by the growing number of individuals with bad credit, the Korean government has implemented a number of measures intended to support the rehabilitation of the credit of delinquent consumer borrowers. These measures may affect the amount and timing of our collections and recoveries on our delinquent consumer credits.

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval by creditor financial institutions representing a majority of the outstanding unsecured debt and two-thirds of the outstanding secured debt, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)500 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit.

On April 1, 2006, the Korean Debtor Recovery and Bankruptcy Law took effect and replaced the Individual Debtor Rehabilitation Law. Under the Korean Debtor Recovery and Bankruptcy Law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

Securities Investment Portfolio

Investment Policy

Our subsidiaries invest in and trade Won-denominated securities and, to a lesser extent, foreign currency-denominated securities for their own account to:

- maintain asset stability and diversification;
- maintain adequate sources of back-up liquidity to match funding requirements; and
- supplement income from core lending activities.

Team managers of the treasury and investment banking departments of our subsidiaries supervise the respective subsidiary s investment and trading activities. In making securities investments, our subsidiaries take into account a number of factors, including external broker analyses and internal assessments of macroeconomic trends, industry analysis, credit evaluation and trading history in determining whether to make particular investments in securities.

Our investments in debt securities include primarily bonds issued by government-related entities, as well as corporate bonds that have been guaranteed by banks (other than merchant banks), government-related funds or privately capitalized funds that we consider to have a low credit risk. As of December 31, 2007, we owned (Won)1,625 billion of KDIC debentures, which represent 3.6% of our investment securities. See Item 4A. History and Development of the Company History Establishment of Woori Finance Holdings.

Our securities investments are subject to various guidelines, including limitations prescribed under the Bank Act. Under these regulations, each of our subsidiaries must limit its investments in equity securities and bonds

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with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and Korean government bonds) to 60% of the sum of its total Tier I and Tier II capital amount (less any capital deductions). Each of our subsidiaries is also generally prohibited from purchasing or retaining permanent ownership interests in equity securities of other banking institutions or acquiring more than 15% of the shares with voting rights issued by any other corporation. Each of our banking subsidiaries and its respective trust accounts are prohibited from acquiring the shares of any of our major shareholders, as defined in Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholder, in excess of an amount determined by enforcement decree within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

Our and our subsidiaries investments in foreign currencies are subject to certain limits and restrictions specified in our and our subsidiaries internal guidelines relating to country exposure, a single issuer and type of security exposure, and total investments by individual business units.

The following table sets out the definitions of the four types of securities investments we hold:

Category	Classification	Valuation Method
Trading securities	Securities held in anticipation of short-term market movements, which have been acquired for the purpose of short-term capital gains.	Marked-to-market and reported at fair value. We record unrealized gains and losses in income. Trading securities held by our overseas branches are stated at market value unless otherwise required by regulatory authorities in countries where the overseas branches are located.
Available-for-sale securities	Securities not classified as held to maturity or trading or other investments. Securities are classified as available-for-sale when we intend to hold them for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs.	Marked-to-market and reported at fair value, with unrealized gains and losses being recorded in other comprehensive income as unrealized gain or loss on valuation of investment securities. If the fair value of these securities declines below their cost and the decline is deemed other-than-temporary, the difference in value is recorded as a realized loss on our income statement.
Held-to-maturity securities	Debt securities are classified as held-to-maturity securities when we have the positive ability and intent to hold until maturity.	Valued at acquisition cost, adjusted for accretion or amortization of discounts and premiums. However, if the fair value of these securities declines below their cost and the decline is deemed other-than-temporary, the difference in value is recorded as a realized loss on our income statement.

Category	Classification	Valuation Method
Other investments	Equity securities where we exercise significant influence over the operating and financial policies of an investee.	Valued pursuant to the equity method of accounting, based on net asset value. We reflect our share in net income or net loss of these entities in our income statement. Changes in retained earnings, capital surplus or other capital accounts of these entities are accounted for as adjustments to our retain earnings or capital adjustments, consistent with the manner reflected in these entities financial statements.
	Equity investment securities that do not have a readily determinable fair value.	Valued at acquisition cost. However, if the fair value of these securities declines below their cost and the decline is deemed other-than-temporary, the difference in value is recorded as a realized loss on our income statement.

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Book Value and Market Value

The following table sets out the book value and market value of securities in our investment portfolio as of the dates indicated:

	As of December 31,					
	2005		2006		2007	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)					
Trading securities						
Equity securities	(Won) 293	(Won) 293	(Won) 636	(Won) 636	(Won) 323	(Won) 323
Beneficiary certificates	93	93	127	127	348	348
Debt securities						
Korean treasury securities and government agency securities	1,726	1,726	1,592	1,592	2,388	2,388
Debt securities issued by financial institutions	529	529	666	666	937	937
Corporate debt securities	1,432	1,432	3,201	3,201	5,660	5,660
Total Trading	4,073	4,073	6,222	6,222	9,656	9,656
Available-for-sale securities						
Equity securities	640	640	1,605	1,605	1,653	1,653
Beneficiary certificates	365	365	781	781	1,186	1,186
Debt securities						
Korean treasury securities and government agency securities	11,105	11,105	11,729	11,729	10,553	10,553
Debt securities issued by financial institutions	2,453	2,453	5,675	5,675	5,303	5,303
Corporate debt securities	3,054	3,054	6,868	6,868	6,907	6,907
Asset backed securities	623	623	1,470	1,470	1,615	1,615
Debt securities issued by foreign governments	49	49	46	46	18	18
Total Available-for-sale	18,289	18,289	28,174	28,174	27,235	27,235
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	8,188	8,159	7,039	7,022	6,413	6,343
Debt securities issued by financial institutions	1,274	1,268	1,415	1,412	1,585	1,559
Corporate debt securities	40	40	22	22	56	57
Asset backed securities	81	90	55	57	46	45
Debt securities issued by foreign governments	55	56	83	82	116	116
Total Held-to-maturity	9,638	9,613	8,614	8,595	8,216	8,120
Total securities	(Won) 32,000	(Won) 31,975	(Won) 43,010	(Won) 42,991	(Won) 45,107	(Won) 45,011

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2007:

	As of December 31, 2007 (in billions of Won)									
	Within 1 year		Over 1 but Within 5 years		Over 5 but Within 10 years		Over 10 years		Total	
	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)
Trading securities										
Korean treasury securities and government agencies	674	3.94%	1,374	4.99%	141	4.73%	199	5.53%	2,388	4.73%
Debt securities issued by financial institutions	590	3.97	347	5.08					937	4.38
Corporate debt securities	186	5.14	63	5.93			5,411	6.07	5,660	6.04
Total	(Won) 1,450	4.11	(Won) 1,784	5.04	(Won) 141	4.73	(Won) 5,610	6.05	(Won) 8,985	5.51
Available-for-sale securities										
Korean treasury securities and government agency	5,555	4.94%	3,133	4.94	21	3.00	1,844	5.48	10,553	5.03
Debt securities issued by financial institutions	2,954	5.06	2,038	5.40	275	5.67	36	6.22	5,303	5.23
Corporate debt securities	881	6.47	1,170	6.78	273	5.55	4,583	6.27	6,907	6.35
Asset backed securities	897	5.97	262	6.46	292	6.25	164	24.08	1,615	7.94
Debt securities issued by foreign governments	17	4.61					1	3.75	18	4.55
Total	(Won) 10,304	5.19	(Won) 6,603	5.47	(Won) 861	5.77	(Won) 6,628	6.49	(Won) 24,396	5.64
Held-to-maturity securities										
Korean treasury securities and government agencies	2,983	4.91	3,361	4.60	30	3.99	39	5.98	6,413	4.75
Debt securities issued by financial institutions	604	4.89	971	5.22	10	6.58			1,585	5.11

Corporate debt securities	10	5.29	37	4.95			9	7.94	56	5.50
Asset backed securities			43	4.48			3	5.42	46	4.54
Debt securities issued by foreign governments	49	8.00	56	9.74	11	4.28			116	8.48
Total	(Won) 3,646	4.95	(Won) 4,468	4.80	(Won) 51	4.57	(Won) 51	6.30	(Won) 8,216	4.88

(1) The weighted average yield for the portfolio represents the yield to maturity for each individual security, weighted using its book value (which is the amortized cost in the case of held-to-maturity securities and the fair value in the case of available-for-sale securities).

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Risk Concentrations

As of December 31, 2007, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our stockholders equity at such date. As of December 31, 2007, our stockholders equity was (Won)12,114 billion.

	As of December 31, 2007	
	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
KDIC	(Won) 1,625	(Won) 1,612
The Bank of Korea	10,021	10,010
Korean government	4,682	4,646
Korea Development Bank	1,571	1,562
Total	(Won) 17,899	(Won) 17,830

The KDIC and the Bank of Korea are Korean government entities, and the Korean government owns a majority equity interest in the Korea Development Bank.

Funding

We fund our lending and other activities using various sources, both domestic and foreign. Our primary funding strategy is to maintain stable and low-cost funding. We have in the past achieved this in part by increasing the average balances of low-cost customer deposits, in particular demand deposits and savings deposits.

Customer deposits are our principal funding source. Customer deposits accounted for 75.0% of our total funding as of December 31, 2005, 72.0% of our total funding as of December 31, 2006 and 70.1% of our total funding as of December 31, 2007.

We also acquire funding through the following sources:

- long-term borrowings, including the issuance of senior and subordinated bonds and borrowings from government-affiliated funds and entities and other financial institutions;

- short-term borrowings, including borrowings from the trust accounts of our subsidiaries and from the Bank of Korea, and call money; and

- secured borrowings, including securities sold under repurchase agreements and issuances of asset-backed securities.

As of December 31, 2007, approximately 96.3% of our total funding was denominated in Won.

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Deposits

Although the majority of our deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, providing us with a stable source of funding. See Item 3D. Risk Factors Other risks relating to our business Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations. The following table shows the average balances of our deposits and the average rates paid on our deposits for the periods indicated:

	For the year ended December 31,							
	2004		2005		2006		2007	
	Average Balance (1)	Average Rate Paid	Average Balance (1)	Average Rate Paid	Average Balance (1)	Average Rate Paid	Average Balance (1)	Average Rate Paid
	(in billions of Won)							
Demand deposits:								
Non-interest-bearing	(Won) 3,533		(Won) 3,704		(Won) 3,513		(Won) 4,168	
Interest-bearing	19,498	0.54%	21,271	0.20%	24,248	0.23%	24,912	0.27%
Time deposits								
Certificates	4,705	4.12	6,931	3.73	10,525	4.64	19,618	5.06
Other time deposits	50,936	3.83	52,277	3.63	61,814	4.16	76,989	4.55
Savings deposits	10,418	2.77	9,795	2.77	10,900	3.37	11,306	3.06
Mutual installment deposits (2)	859	4.77	761	4.05	596	3.65	455	3.59
Average total deposits	(Won) 89,949	2.87	(Won) 94,739	2.62	(Won) 111,596	3.24	(Won) 137,899	3.70

(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) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible to apply for loans secured by such deposits while they maintain an account with us. In order to qualify to apply for such a loan, a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. Any such loan will be secured in an amount up to the holder s mutual installment deposit and will be subject to the same loan underwriting policy we apply for other secured loans. For the portion of the loan, if any, that is not secured, we apply the same loan underwriting policy as we would for other unsecured loans.

For a description of our retail deposit products, see Business Consumer Banking Lending Activities Mortgage and Home Equity Lending and Business Consumer Banking Deposit-Taking Activities.

Maturities of Certificates of Deposit and Other Time Deposits

The following table presents, as of December 31, 2007, the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had fixed maturities in excess of (Won)100 million:

	As of December 31, 2007			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total

	(in billions of Won)			
Maturing within three months	(Won) 5,773	(Won) 16,097	(Won) 12	(Won) 21,882
After three but within six months	6,060	8,447	10	14,477
After six but within 12 months	7,052	22,387	12	29,451
After 12 months	523	2,172	22	2,718
Total	(Won) 19,368	(Won) 49,104	(Won) 56	(Won) 68,528

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Long-Term Debt

The aggregate amount of contractual maturities of all long-term debt as of December 31, 2007 was as follows:

		Amount (in billions of Won)
Due in 2008		10,972
Due in 2009		9,181
Due in 2010		9,450
Due in 2011		1,608
Due in 2012		4,121
Thereafter		6,032
Gross long-term debt		41,364
Less: discount		(28)
Total long-term debt, net	(Won)	41,336

Short-Term Borrowings

The following table presents, for the periods indicated, information regarding our short-term borrowings, with an original maturity of one year or less:

	As of and for the year ended December 31,					
	2005		2006		2007	
			(in billions of Won)			
Call money						
Year-end balance	(Won)	326	(Won)	2,270	(Won)	3,008
Average balance (1)		934		1,703		1,965
Maximum balance		2,422		3,190		3,008
Average interest rate (2)		3.08%		4.15%		4.90%
Year-end interest rate		0.6%~4.39%		0.74%~5.50%		0.74%~ 7.07%
Borrowings from the Bank of Korea (3)						
Year-end balance	(Won)	1,466	(Won)	1,363	(Won)	932
Average balance (1)		1,258		1,369		1,035
Maximum balance		1,710		1,557		1,149
Average interest rate (2)		2.00%		2.46%		2.94%
Year-end interest rate		2.00%~3.00%		2.75%		3.25%
Other short-term borrowings (4)						
Year-end balance	(Won)	8,443	(Won)	10,662	(Won)	13,000
Average balance (1)		9,194		9,582		13,124
Maximum balance		9,604		12,939		14,398
Average interest rate (2)		2.92%		4.38%		4.52%
Year-end interest rate		0.00%~9.58%		0.00%~10.30%		0.00%~10.50%

(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) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.

(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.

(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured.

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Secured Borrowings

Asset securitization transactions that are classified as secured borrowings involve the nominal sale of our assets to a securitization vehicle that issues securities backed by those assets. Since control of the assets is not surrendered in these nominal sales, they are not treated as sale transactions for accounting purposes. Instead, the assets remain on our balance sheet with the securitization proceeds treated as secured borrowings. These secured borrowings are intended to be fully repaid through recoveries on the collateral. For some of these nominal asset sales, if delinquencies arise with respect to such assets, we will be required to compensate the securitization vehicle for any net shortfalls in its recoveries on such assets.

See Note 19 of the notes to our consolidated financial statements for a summary of our secured borrowings and relevant collateral as of December 31, 2005, 2006 and 2007.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Financial Holding Company Act (Law No. 6274, October 23, 2000), last amended on March 28, 2008, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Services Commission and the Financial Supervisory Service.

The Financial Services Commission exerts direct control over financial holding companies pursuant to the Financial Holding Company Act. Among other things, the Financial Services Commission:

- approves the establishment of financial holding companies;
- issues regulations on the capital adequacy of financial holding companies and their subsidiaries; and
- drafts regulations relating to the supervision of financial holding companies.

Following the instructions and directives of the Financial Services Commission, the Financial Supervisory Service supervises and examines financial holding companies and their subsidiaries. In particular, the Financial Supervisory Service sets requirements relating to Korean financial holding companies liquidity and capital adequacy ratios and establishes reporting requirements within the authority delegated under the Financial Services Commission regulations. Financial holding companies must submit quarterly reports to the Financial Supervisory Service discussing business performance, financial status and other matters identified in the Enforcement Decree of the Financial Holding Company Act.

Under the Financial Holding Company Act, a financial holding company must primarily engage in controlling its subsidiaries by holding equity stakes in them equal in aggregate to at least 50% of the financial holding company s aggregate assets based on its latest balance sheet. A financial holding company may engage only in the following activities:

- controlling the management of its subsidiaries;
- financially supporting its direct and indirect subsidiaries;
- raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products and the joint utilization of facilities or information and technology systems; and
- any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

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The Financial Holding Company Act requires every financial holding company and its subsidiaries to obtain prior approval from, or file a prior report with, the Financial Services Commission before acquiring control of another company. In addition, the Financial Services Commission must grant permission to liquidate or to merge with any other company before the liquidation or merger. A financial holding company must report to the Financial Services Commission when its officers or largest shareholder changes, and when it ceases to control any of its direct and indirect subsidiaries by disposing of their shares.

Capital Adequacy

The Financial Holding Company Act does not provide for a minimum paid-in capital requirement related to financial holding companies. However, all financial holding companies are required to maintain a specified level of solvency. In addition, with respect to the allocation of net profit earned in a fiscal term, a financial holding company must set aside in its legal reserve an amount equal to at least 10% of its net income after tax each time it pays dividends on its net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Beginning on January 1, 2007, under the new capital adequacy requirements of the Financial Services Commission applicable from such date, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8.0%. Consolidated capital adequacy ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with Financial Services Commission requirements that have been formulated based on Bank of International Settlements (BIS) standards. Equity capital, as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies. Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

Liquidity

All financial holding companies are required to match the maturities of their assets and liabilities on a non-consolidated basis in accordance with the Financial Holding Company Act in order to ensure liquidity. Financial holding companies must:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% on a non-consolidated basis;

- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 80% on a non-consolidated basis (except that such requirement is not applicable to financial holding companies whose foreign currency liabilities amount is less than 1% of its total assets);

- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days as a percentage of total foreign currency assets of not less than 0% on a non-consolidated basis;

- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month as a percentage of total foreign currency assets of not less than negative 10% on a non-consolidated basis; and

- make quarterly reports regarding their liquidity to the Financial Supervisory Service.

A financial holding company may not invest in securities (other than those securities issued by its direct and indirect subsidiaries) in excess of the amount of its shareholders equity less the total amount of investment in subsidiaries, subject to certain exceptions.

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Financial Exposure to Any Individual Customer and Major Shareholder

Subject to certain exceptions, the aggregate credit (as defined in the Financial Holding Company Act, the Bank Act, the Merchant Bank Act and the Korean Securities and Exchange Act, respectively) of a financial holding company and its direct and indirect subsidiaries that are banks, merchant banks or securities companies (which we refer to as Financial Holding Company Total Credit) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of equity capital (as defined below).

Equity capital is defined as the sum of:

(1) in case of a financial holding company, net assets (which is total assets less total liabilities) on balance sheet as of the end of the most recent quarter; and

(2) in case of a direct or indirect subsidiary of a financial holding company that is:

(i) a bank, the capital amount as defined in Article 2(1), Item 5 of the Bank Act;

(ii) a merchant bank, the capital amount as defined in Article 2, Item 3 of the Merchant Bank Act; and

(iii) a securities company, total assets less total liabilities on that company s balance sheet as of the end of the most recent financial year and adjusted as determined by the Financial Services Commission (for example, by including any increase or decrease of paid-in capital after the end of the most recent financial year);

less the sum of:

(1) the amount of shares of direct and indirect subsidiaries held by the financial holding company;

(2) the amount of shares that are cross-held by each direct and indirect subsidiary that is a bank, merchant bank or securities company; and

(3) the amount of shares of a financial holding company held by such direct and indirect subsidiaries that are banks, merchant banks or securities companies.

The Financial Holding Company Total Credit to a single individual or judicial person may not exceed 20% of the equity capital. In addition, the Financial Holding Company Total Credit to a shareholder holding (together with the persons who have a special relationship with the shareholder, as defined in the Enforcement Decree of the Financial Holding Company Act) in aggregate more than 10% of the total issued and outstanding voting shares of a financial holding company generally may not exceed the lesser of (x) 25% of the equity capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such shareholder (together with the persons who have a special relationship with such shareholder).

Further, the total sum of credits (as defined in the Financial Holding Company Act, the Bank Act, the Merchant Bank Act and the Korean Securities and Exchange Act, respectively) of a bank holding company controlling banks and its direct and indirect subsidiaries that are banks, merchant banks or securities companies as applicable (Bank Holding Company Total Credit) extended to a major shareholder (as defined below) (together with the persons who have a special relationship with that major shareholder) will not be permitted to exceed the lesser of (x) 25% of the equity capital and (y) the amount of the equity capital of the bank holding company multiplied by the shareholding ratio of the major shareholder, except for certain cases.

Major shareholder is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder), in excess of 10% (or in the case of a bank holding company controlling regional banks only, 15%) in the aggregate of the bank holding company s total issued voting shares; or

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a shareholder holding (together with persons who have a special relationship with that shareholder), more than 4% in the aggregate of the total issued voting shares of the bank holding company controlling nationwide banks (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank holding company through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Financial Holding Company Act.

In addition, the total sum of the Bank Holding Company Total Credit granted to all of a bank holding company s major shareholders must not exceed 25% of the bank holding company s equity capital. Furthermore, any bank holding company that, together with its direct and indirect subsidiaries, intends to extend credit to the bank holding company s major shareholder in an amount exceeding the lesser of (x) the amount equivalent to 0.1% of the equity capital and (y) (Won)5 billion, in any single transaction, must obtain prior unanimous board resolutions and then, immediately after providing the credit, must file a report to the Financial Services Commission and publicly disclose the filing of the report.

Restrictions on Transactions Among Direct and Indirect Subsidiaries and Financial Holding Company

Generally, a direct or indirect subsidiary of a financial holding company may not extend credits (excluding the amount of corporate credit card payments issued by a direct or indirect subsidiary of a financial holding company that is engaged in the banking business) to that financial holding company. In addition, a direct or indirect subsidiary of a financial holding company that is engaged in the banking, merchant banking or securities business may not extend credits (excluding the amount of corporate credit card payments issued by a direct or indirect subsidiary of a financial holding company that is engaged in the banking business) to other direct or indirect subsidiaries of the financial holding company in excess of 10% of its capital amount on an individual basis or to those subsidiaries in excess of 20% of its capital amount on an aggregate basis. The subsidiary extending the credit must also obtain adequate collateral from the other subsidiaries unless the credit is otherwise approved by the Financial Services Commission.

Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is prohibited from owning the shares of any other direct or indirect subsidiaries (other than those directly controlled by that direct or indirect subsidiary) under the common control of the financial holding company. Subject to certain exceptions, a direct or indirect subsidiary of a financial holding company is also prohibited from owning the shares of the financial holding company controlling that direct or indirect subsidiary. The transfer of certain loans or credits classified as precautionary or below between a financial holding company and its direct or indirect subsidiary or between the direct and indirect subsidiaries of a financial holding company is prohibited except for:

(1) transfers to a special purpose company, or entrustment with a trust company, for an asset-backed securitization transaction;

(2) transfers to a mortgage-backed securities issuance company for a mortgage securitization transaction;

(3) transfers or in-kind contributions to a corporate restructuring vehicle under the Corporate Restructuring Promotion Act; and

(4) transfers to a corporate restructuring company under the Industry Promotion Act.

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of financial holding companies, the Financial Services Commission requires financial holding companies to disclose certain material matters including:

(1) financial condition and profit and loss of the financial holding company and its direct and indirect subsidiaries;

(2) capital raising by the financial holding company and its direct and indirect subsidiaries and the appropriation of such capital;

(3) any sanctions levied on the financial holding company and its direct and indirect subsidiaries under the Financial Holding Company Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

(4) occurrence of any non-performing assets or financial incident that may have a material adverse effect.

Restrictions on Shareholdings in Other Companies

Generally, a financial holding company may not own (a) more than 5% of the total issued and outstanding shares of another finance-related company or (b) any shares of a non-finance-related company, other than its direct or indirect subsidiaries. However, a bank holding company is allowed to own the shares of a non-finance-related company subject to a 5% limit. Nevertheless, if a bank holding company owns the shares of a non-finance-related company, the bank holding company must exercise its voting rights in the same manner and in the same proportion as such company s other shareholders exercise their voting rights. By comparison, a financial holding company may exercise its voting rights with respect to the shares of a finance-related company at its discretion.

Generally, a financial holding company may not own outstanding shares of all subsidiaries in the aggregate with an acquisition price in excess of its net assets (i.e., total assets less total liabilities). Exceptions include where the financial holding company:

(1) invests up to 130% of its net assets in a subsidiary to improve the financial condition of a subsidiary classified as an unsound financial institution under the Law on the Improvement of Structure of Financial Industry or as an unsound or potentially unsound financial institution under the Depositor Protection Act;

(2) invests up to 130% of its net assets to make an indirect subsidiary or a company controlled by a subsidiary into a direct subsidiary of the financial holding company;

(3) already holds the outstanding shares of a subsidiary, where that holding constituted not more than 130% of its net assets at the time when it became a financial holding company;

(4) invests up to 130% of its net assets in a subsidiary in order to make it a wholly-owned subsidiary, or in a special purpose company under the Asset Backed Securitization Act to make it a subsidiary;

(5) has net assets that increase such that, as the amount of investments in subsidiaries increases, the ratio of the total amount of investments in subsidiaries to the financial holding company s net assets does not increase; or

(6) has total investments in its subsidiaries that exceed its net assets due to (a) reduction of the financial holding company s net assets, (b) spin-off, merger or transfer of the entire business of the financial holding company, (c) spin-off, merger or transfer of the entire business of

direct or indirect subsidiaries, or (d) foreclosure of collateral or receipts under accord and satisfaction. (This means receipts of subsidiary shares in lieu of its claim to subsidiary.)

The financial holding company, however, must reduce the ownership of excessive shares within two years in case of (1) through (5) and within six months in case of (6), unless this deadline is otherwise extended by the Financial Services Commission.

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

A direct subsidiary of a financial holding company may not control any other company other than, as an indirect subsidiary of the financial holding company:

- subsidiaries in foreign jurisdictions which are engaged in the same business as the direct subsidiary;
- certain financial institutions which are engaged in any business that the direct subsidiary may conduct without any licenses or permits;
- certain financial institutions whose business is related to the business of the direct subsidiary as described by the Enforcement Decree of the Financial Holding Company Act (for example, a bank

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subsidiary may control only credit information companies, credit card companies, trust companies, investment trust management companies, investment advisory companies, futures business companies, and asset management companies);

certain financial institutions whose business is related to the financial business as prescribed by the regulations of the Ministry of Strategy and Finance; and

certain companies which are not financial institutions but whose business is related to the financial business of the financial holding company as prescribed by the Enforcement Decree of the Financial Holding Company Act (for example, a finance-related research company or a finance-related information technology company).

Acquisition of such indirect subsidiaries by direct subsidiaries of a financial holding company requires prior permission from the Financial Services Commission or the submission of a report to the Financial Services Commission, depending on the types of the indirect subsidiaries and the amount of total assets of the indirect subsidiaries.

An indirect subsidiary of a financial holding company may not control any other company.

Restrictions on Transactions between a Bank Holding Company and its Major Shareholder

A bank holding company and its direct and indirect subsidiaries may not acquire (including through their respective trust accounts) shares issued by the bank holding company s major shareholder in excess of 1% of the equity capital (as defined above). In addition, if those entities intend to acquire shares issued by that major shareholder in any single transaction in excess of the lesser of (x) the amount equivalent to 0.1% of the equity capital and (y) (Won)5 billion, that entity must obtain prior unanimous board resolutions and then, immediately after the acquisition, file a report to the Financial Services Commission and publicly disclose the filing of the report.

Restriction on Ownership of a Financial Holding Company

Under the Financial Holding Company Act, a financial institution generally may not control a financial holding company. In addition, any single shareholder and persons who have a special relationship with that shareholder may acquire beneficial ownership of no more than 10% of the total issued and outstanding shares with voting rights of a bank holding company that controls nationwide banks or 15% of the total issued and outstanding shares with voting rights of a bank holding company that controls only regional banks. The Korean government and the KDIC are not subject to this limit. Non-financial business group companies (as defined below), however, may not acquire the beneficial ownership of shares of a bank holding company controlling nationwide banks in excess of 4% of that bank holding company s outstanding voting shares unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10%. Any other person (whether a Korean national or a foreign investor) may acquire no more than 10% of total voting shares issued and outstanding of a bank holding company controlling nationwide banks unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of a bank holding company controlling only regional banks), 25% or 33% of the total voting shares issued and outstanding of that bank holding company controlling nationwide banks.

Non-financial business group companies as defined under the Financial Holding Company Act include:

(1) any same shareholder group where the aggregate net assets of all non-financial business companies belonging to that group equals or exceeds 25% of the aggregate net assets of all members of that group;

(2) any same shareholder group where the aggregate assets of all non-financial business companies belonging to that group equals or exceeds (Won)2 trillion; or

(3) any mutual fund where a same shareholder group identified in (1) or (2) above owns more than 4% of the total issued and outstanding shares of that mutual fund.

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Sharing of Customer Information among Financial Holding Company and its Subsidiaries

Under the Act on Use and Protection of Credit Information, any individual customer s credit information must be disclosed or otherwise used by financial institutions only to determine, establish or maintain existing commercial transactions with them and only after obtaining written consent to use that information. Under the Financial Holding Company Act, a financial holding company and its direct and indirect subsidiaries, however, may share certain credit information of individual customers among themselves for business purposes without the customers written consent. In addition, a subsidiary securities company of a financial holding company may provide that financial holding company and its other direct and indirect subsidiaries information relating to the aggregate of cash or securities that a customer of the securities company has deposited for business purposes at the written request of that customer.

Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires nationwide banks, such as Woori Bank, to maintain a minimum paid-in capital of (Won)100 billion and regional banks, such as Kyongnam Bank and Kwangju Bank, to maintain a minimum paid-in capital of (Won)25 billion. All banks, including foreign bank branches in Korea, are also required to maintain a prescribed solvency position. A bank must also set aside in its legal reserve an amount equal to at least 10% of the net income after tax each time it pays dividends on net profits earned until its legal reserve reaches at least the aggregate amount of its paid-in capital.

Under the Bank Act, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of shareholders equity, capital surplus, retained earnings, unissued stock dividends and hybrid Tier I capital instruments. Tier II capital (supplementary capital) consists of revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares (with redemption rights after the fifth anniversary of their date of issuance) and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

In November 2002, the Financial Supervisory Service amended the Enforcement Detailed Rules on the Supervision of the Banking Business to include a more conservative risk-weighting system for certain newly extended home mortgage loans, which set the risk-weighted ratios of Korean banks in respect of home mortgage loans between 50% and 70% depending on the borrower s debt ratio and whether the home mortgage loans are overdue. On June 28, 2007, the Financial Supervisory Service further amended the Enforcement Detailed Rules on the Supervision of the Banking Business and, as a result, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans from January 1, 2008:

(1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35%; and

(2) for those banks which adopted an internal ratings-based approach for calculating credit risk capital requirements, a risk-weight ratio calculated with reference to the probability of default, loss given default and exposure at default, each as defined under the Enforcement Detailed Rules on the Supervision of the Banking Business.

Under the Regulation on the Supervision of the Banking Business, banks must generally maintain allowances for credit losses in respect of their outstanding loans and other credits (including credit-related commitments and trust account loans) in an aggregate amount covering not less than:

- 0.85% of normal credits (or 0.9% in the case of normal credits comprising loans to borrowers in the construction, wholesale and retail, accommodation and restaurant or real estate and housing industries (as classified under the Korean Industry Classification Standard), 1.0% in the case of normal credits comprising loans to individuals and households, and 1.5% in the case of normal credits comprising outstanding credit card receivables and card loans);

- 7% of precautionary credits (or 10% in the case of precautionary credits comprising loans to individuals and households, and 15% in the case of precautionary credits comprising outstanding credit card receivables and card loans);

- 20% of substandard credits;

- 50% of doubtful credits (or 55% in the case of doubtful credits comprising loans to individuals and households, and 60% in the case of doubtful credits comprising outstanding credit card receivables and card loans); and

- 100% of estimated loss credits.

Furthermore, under a 2006 amendment to the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their confirmed guarantees (including confirmed acceptances) and outstanding non-used credit lines as of the settlement date in an aggregate amount calculated at the same rates applicable to normal, precautionary, substandard and doubtful credits comprising their outstanding loans and other credits as set forth above.

See Recent Regulations Relating to Retail Household Loans and Credit Card Business.

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Bank Act. Banks may not invest an amount exceeding 60% of their Tier I and Tier II capital (less any capital deductions) in stocks and other securities with a maturity of over three years. This stipulation does not apply to Korean government bonds or to Monetary Stabilization Bonds issued by the Bank of Korea. The Financial Services Commission also requires each Korean bank to:

- maintain a Won liquidity ratio (defined as Won assets due within three months, including marketable securities, divided by Won liabilities due within three months) of not less than 100% and to make quarterly reports to the Financial Supervisory Service;

- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;

maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than 0%;

maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and

submit monthly reports with respect to the maintenance of these ratios.

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The Monetary Policy Committee of the Bank of Korea is empowered to fix and alter minimum reserve requirements that banks must maintain against their deposit liabilities. The current minimum reserve ratio is:

- 7% of average balances for Won currency demand deposits outstanding;

- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and

- 2% of average balances for Won currency time and savings deposits, mutual installments, housing installments and certificates of deposit outstanding.

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to savings deposits outstanding and a 7% minimum reserve ratio is applied to demand deposits. A 1% minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Financial Exposure to Any Individual Customer and Major Shareholder

Under the Bank Act, the sum of large exposures by a bank in other words, the total sum of its credits to single individuals, juridical persons or business groups that exceed 10% of the sum of Tier I and Tier II capital (less any capital deductions) generally must not exceed five times the sum of Tier I and Tier II capital (less any capital deductions). In addition, banks generally may not extend credit (including loans, guarantees, purchases of securities (only in the nature of a credit) and any other transactions that directly or indirectly create credit risk) in excess of 20% of the sum of Tier I and Tier II capital (less any capital deductions) to a single individual or juridical person, or grant credit in excess of 25% of the sum of Tier I and Tier II capital (less any capital deductions) to a single group of companies as defined in the Monopoly Regulations and Fair Trade Act.

The Bank Act also provides for certain restrictions on extending credits to a major shareholder. A major shareholder is defined as:

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 10% (or 15% in the case of regional banks) in the aggregate of the bank s total issued voting shares; or

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than (Won)2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 4% of the total issued and outstanding shares.

Under these restrictions, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholder s shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions). In addition, the total sum of credits granted to all major shareholders must not exceed 25% of the bank s Tier I and Tier II capital (less any capital deductions). However, the foregoing restrictions do not apply to the Korea Deposit Insurance Corporation, in the event that the Korea Deposit Insurance Corporation becomes a major shareholder in the process of restructuring of banks.

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Interest Rates

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans made by registered banks in Korea. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank s interest expense.

Lending to Small- and Medium-Sized Enterprises

In order to obtain funding from the Bank of Korea at concessionary rates for their small- and medium-sized enterprise loans, banks are required to allocate a certain minimum percentage of any monthly increase in their Won currency lending to small- and medium-sized enterprises. Currently, this minimum percentage is 45% in the case of nationwide banks and 60% in the case of regional banks. If a bank does not comply with this requirement, the Bank of Korea may:

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or
- lower the bank s credit limit.

Disclosure of Management Performance

In order to assist the general public, especially depositors and shareholders, in monitoring bank management performance, the Financial Services Commission requires commercial banks to make mandatory public disclosures of the following:

- loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than (Won)4 billion;
- the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result of that financial incident, or the governor of the Financial Supervisory Service has made a public announcement regarding the incident; and
- any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than (Won)1 billion.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

- loans for the purpose of speculation in commodities or securities;
- loans directly or indirectly secured by a pledge of a bank s own shares, or secured by a pledge of shares in excess of 20% of the issued and outstanding shares of any other corporation (subject to certain exceptions with respect to financing for infrastructure projects);
- loans directly or indirectly to enable a natural or juridical person to buy the bank s own shares;
- loans directly or indirectly to finance political campaigns or related activities;

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loans to any of the bank s officers or employees, other than petty loans of up to (Won)20 million in the case of a general loan, (Won)50 million in the case of a general loan plus a housing loan or (Won)60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or

loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to (Won)20 million or general and housing loans of up to (Won)50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission recently implemented a number of changes to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. As a result of the rapid increase in retail household loans and related credit risks, the Financial Services Commission and the Financial Supervisory Service increased the minimum provisioning requirements for retail household loans. These requirements, set forth in the following table, became effective on December 31, 2006:

	Provisioning Ratio on Retail Household Loans	
Asset Quality Classification	**Before**	**Current**
Normal	0.75% or above	1.0% or above
Precautionary	8.0% or above	10.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	55.0% or above	55.0% or above
Estimated loss	100.0%	100.0%

In addition, due to a rapid increase in the number of loans secured by homes and other forms of housing, the Financial Services Commission and the Financial Supervisory Service have implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

as to loans secured by collateral of housing located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60%;

as to loans secured by collateral of housing located in areas of excessive investment as designated by the Korean government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50% and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;

as to loans secured by apartments located in areas of high speculation as designated by the Korean government,

(i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and

(ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over (Won)600 million, and (b) 60%, if the price of such apartment is (Won)600 million or lower;

as to loans secured by apartments with appraisal value of more than (Won)600 million in areas of high speculation as designated by the Korean government or certain metropolitan areas designated as areas of excessive investment by the Korean government, the borrower s debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower s annual income) should not exceed 40%;

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as to apartments located in areas of high speculation as designated by the Korean government, a borrower is permitted to have only one new loan secured by such apartment;

where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the Korean government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and

in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the Korean government should not exceed 40%.

See Item 3D. Risk Factors Risks relating to our consumer credit portfolio Government regulation of consumer lending, particularly mortgage and home equity lending, has recently become more stringent, which may hurt our consumer banking operations.

Restrictions on Investments in Property

A bank may possess real estate property only to the extent necessary for the conduct of its business, unless the aggregate value of that property does not exceed 60% of the sum of the bank s Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

that corporation engages in a category of financial businesses set forth by the Financial Services Commission; or

the acquisition is necessary for the corporate restructuring of the corporation and is approved by the Financial Services Commission.

In the above exceptional cases, a bank must satisfy either of the following requirements:

the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights does not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions); or

the acquisition satisfies the requirements determined by the Financial Services Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts may not acquire the shares of another corporation that is a major shareholder of the bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank s outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares, and in excess of 10%, 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.025% of insurable deposits for each quarter. If the KDIC makes a payment on an insured amount, it will acquire the depositors claims with respect to that payment amount. The KDIC insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. This limit does not apply to interest-free settlement accounts (for example, a checking account) during the period from January 1, 2001 to December 31, 2003 and therefore the whole amount deposited in such accounts is protected.

Restrictions on Foreign Exchange Position

Under the Korean Foreign Exchange Transaction Law, each of a bank s net overpurchased and oversold positions may not exceed 50% of its shareholders equity as of the end of the prior month.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Services Commission to enter the securities business, which is governed by regulations under the Korean Securities and Exchange Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Trust Business

A bank must obtain approval from the Financial Services Commission to engage in trust businesses. The Trust Act and the Trust Business Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

under the Bank Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank, which requires that banks engaged in both banking and trust businesses must maintain two separate accounts and two separate sets of records; and

depositors and other general creditors cannot obtain the assets comprising the trust accounts if the bank is liquidated or wound-up.

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The bank must make a special reserve of 25% or more of fees and commissions from each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed. In addition, a bank engaging in trust business must deposit with a court an amount equal to 0.02% of its paid-in capital each fiscal year until the aggregate amount of those deposits equals 2.5% or more of its paid-in capital. If that bank breaches its duty of care as a trustee and causes losses to its customers, the court deposits are available as compensation.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products under the Trust Business Act, securities investment trusts under the Securities Investment Trust Business Act, securities investment companies under the Securities Investment Company Act and variable insurance products under the Insurance Business Act, took effect on January 5, 2004. Under the Indirect Investment Asset Management Business Act, a bank will not be permitted to offer current unspecified money trust account products after July 5, 2004 (except under certain limited circumstances) and will be required to qualify as an asset management company by such date in order to be able to manage any investment trust products. Investment trust products will need to be established pursuant to a trust deed entered into between an asset management company and a trustee.

In the event that a bank qualifies and operates as an asset management company, a trustee or a custodian under the Indirect Investment Asset Management Business Act, it is required to establish relevant operation and management systems to prevent potential conflicts of interest among the banking business, the asset management business and the trustee or custodian business. These measures include:

- prohibitions against officers, directors and employees of one particular business operation from serving as an officer, director and employee in another business operation;
- prohibitions against the joint use or sharing of computer equipment or office equipment; and
- prohibitions against the sharing of information by and among officers, directors and employees engaged in the different business operations.

In addition, a bank is also required to establish an Indirect Investment Asset Management Committee consisting of three directors, two of whom must be non-standing directors of such bank.

Credit Card Business

General

In order to enter the credit card business, a bank must register with the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on February 29, 2008. A registered bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

Pursuant to the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business must submit its business reports and reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business is liable for any losses arising from the unauthorized use of credit cards or debit cards after it has received notice from the cardholder of the loss or theft of the card, and is also liable for any unauthorized use during the period beginning 60 days before the registered bank engaging in the credit card business receives notice of the loss or theft from the cardholder.

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However, if the registered bank engaging in the credit card business has entered into agreements which allow it to transfer all or part of its burden of liability for loss or theft of credit cards to holders of the credit cards, then the registered bank engaging in the credit card business may transfer the liability to those holders of the credit cards in accordance with the terms and conditions of the agreements. Even in such case, the risk of liability cannot be transferred to the holders of the credit cards if there was no willful misconduct or negligence attributable to the holders of the credit cards, such as in the case where the cardholder s password was disclosed under irresistible force or threat to the cardholder s or his/her relative s life or health.

A registered bank engaging in the credit card business is also liable for any loss arising from the use of forged or altered credit cards, debit cards or pre-paid cards. However, if the registered bank engaging in the credit card business has entered into an agreement allowing it to transfer all or part of its burden of liability for loss or theft of the credit card, debit card, or pre-paid card to the holder of the credit card, debit card, or pre-paid card, and it has proved willful misconduct or gross negligence of the holder of the credit card, debit card, or pre-paid card, then the registered bank engaging in the credit card business may transfer the liability to such holder of the credit card, debit card, or pre-paid card in accordance with the terms and conditions of the agreement. For these purposes, willful misconduct or gross negligence means either disclosure of the cardholder s password, or the transfer of the credit card or debit card, or providing such credit card or debit card as security, all through willful misconduct or gross negligence.

Any agreement between a registered bank engaging in the credit card business and a cardholder allowing the transfer of burden of liability for the loss, theft, forgery or alteration of credit cards, debit cards, or pre-paid cards, as applicable, will be effective only if it is in writing, and an act of gross negligence by the cardholder will be acknowledged as such only if it is expressly provided as falling under such act in the agreement.

Each registered bank engaging in the credit card business must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either restrict the limit or take other necessary measures against the registered bank engaging in the credit card business with respect to the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage; or
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards.

Issuance of New Cards and Solicitation of New Card Holders

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a registered bank engaging in the credit card business may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

- persons who are at least 18 years old when they apply for a credit card;

persons whose capability to pay bills as they come due has been verified using standards established by the registered bank engaging in the credit card business; and

in the case of minors who are at least 18 years and younger than 20 years, persons who submit a guardian s consent along with documents evidencing income, such as an employment certificate or a tax certificate.

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In addition, a registered bank engaging in the credit card business may not solicit credit card members by:

- providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of no-annual fee credit cards, the average annual fees will be deemed to be (Won)10,000) in connection with issuing a credit card;
- soliciting applicants on roads, public places or along corridors used by the general public;
- soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;
- soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and
- soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a registered bank engaging in the credit card business may not:

- exert violence or threaten violence;
- inform a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s obligations without just cause;
- provide false information relating to the debtor s obligation to the debtor or his or her related parties;
- threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;
- visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and
- utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

Regulations on the Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and an amendment to such law was enacted as of March 13, 2005. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;
- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;
- claims for damages caused by insider trading or market manipulation; and
- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

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The Law on Class Actions Regarding Securities came into effect on January 1, 2005 with respect to companies with a total asset value equal to or greater than (Won)2 trillion and came into effect on January 1, 2007 with respect to companies with a total asset value of less than (Won)2 trillion, and applies retroactively to all applicable claims arising out of acts committed since its enactment.

An amendment of the new law delayed its effectiveness until December 31, 2006, with respect to claims against companies and their auditors in cases where such companies took steps to correct any accounting irregularities.

Principal Regulations Applicable to Securities Companies

General

The Korean Securities and Exchange Act regulates and governs the securities business. The entities that regulate and supervise securities companies are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Korean Securities and Exchange Act, a company must obtain permission from the Financial Services Commission to commence a primary securities business such as a brokerage business, a dealing business or an underwriting business. A securities company may also engage in certain businesses ancillary to that business without obtaining any separate license and certain other businesses if it obtains separate licenses from the Financial Services Commission. A securities company must also obtain permission from the Financial Services Commission to merge with any other entity or transfer all or a part of its business.

If the Financial Services Commission deems a securities company s financial condition to be unsound or if a securities company fails to meet the applicable net operating equity ratio (as defined below), the Financial Services Commission may order the securities company to:

- increase or reduce its capital;
- cancel or consolidate its stock:
- transfer all or part of its business;
- close branch offices;
- merge with another financial institution;
- suspend a part or all of its business operations; or

assign contractual rights and obligations relating to its financial transactions.

Regulations on Financial Soundness

The Financial Services Commission regulations require that the financial soundness of a securities company be assessed in accordance with its net operating equity ratio, which is calculated as follows and expressed as a percentage:

Net operating equity ratio = (net operating equity/total risk) x 100

The terms net operating equity and total risk for the purpose of the above formula are defined in the Financial Services Commission s regulations. Generally, the net operating equity and the total risk are calculated according to the following formulas:

Net operating equity = net assets (total assets total liabilities) total deductible items + total creditable items

Total risk = market risk + counterparty risk + basic risk + credit concentration risk risk offsetting factor

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The regulations require that securities companies maintain their net operating equity ratio at a level equal to or higher than 150%.

Other Provisions on Financial Soundness

The Korean Securities and Exchange Act, the Enforcement Decree of the Korean Securities and Exchange Act and Financial Services Commission regulations also include provisions designed to regulate certain types of activities relating to the management of the assets of a securities company. These provisions include:

- restrictions on the holdings by a securities company of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Korean Securities and Exchange Act) of that securities company;

- restrictions on providing money or credit to the largest shareholder, major shareholder, officers and related persons of the securities company; and

- special provisions concerning payment guarantees by a securities company. For instance, a securities company may not provide payment guarantees for third parties other than its overseas subsidiaries or provide new guarantees for corporate bonds, other than, subject to certain restrictions, roll-over guarantees in connection with the repayment of bonds previously guaranteed by it.

Business Conduct Rules

Effective from August 2001, the Financial Services Commission adopted business conduct rules applicable to securities companies. These rules impose greater responsibilities on securities companies, strictly banning certain unfair practices and ensuring that the potential investors solicited by securities companies are suitable.

Disclosure and Reports

Pursuant to the Korean Securities and Exchange Act, a securities company is required to disclose certain material matters, including:

- its financial condition, including profit and loss;

- any sanctions levied on it under the Korean Securities and Exchange Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

- the occurrence of any matters which may have a material adverse effect on its operation or management.

A securities company must submit a report on its financial results to the Financial Services Commission within 45 days from the end of each quarter.

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Item 4C. ***Organizational Structure***

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:

(1) Woori Investment & Securities is accounted for as an equity method investee.
(2) Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and in respect of which we entered into a joint venture agreement with Aviva International Holdings Limited, is expected to be accounted for as an equity method investee under U.S. GAAP.

Our largest subsidiary is Woori Bank, the assets of which represented approximately 78.6% of our total assets as of December 31, 2007. The following table identifies each of our major subsidiaries and their contributions to our total assets and net income as of and for the year ended December 31, 2007 (after allocating eliminations for consolidation, inter-segment transactions and certain differences in classification under our management reporting system for assets and net income in proportion to total assets and absolute net income, respectively):

	As of or for the year ended December 31, 2007		
	Total Assets (1)		
	Amount	% of Total	Net Income (2)
	(in billions of Won, except percentages)		
Subsidiary			
Woori Bank	(Won) 181,375	78.6%	(Won) 984
Kyongnam Bank	17,804	7.7	111
Kwangju Bank	14,284	6.2	46
Others	17,412	7.5	1,101
Total	(Won) 230,875	100.0%	(Won) 2,242

(1) After allocating eliminations of (Won)16,034 billion representing consolidation, inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of segment assets before eliminations to total assets before eliminations. See Note 40 of the notes to our consolidated financial statements.
(2) After allocating a loss of (Won)2,429 billion representing consolidation, inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of absolute segment net income to the sum of the absolute net income of all segments. See Note 40 of the notes to our consolidated financial statements.

The following is a summary of the activities of our principal subsidiaries:

Woori Bank

Established in December 1998, Woori Bank (formerly known as Hanvit Bank) was formed as a result of the merger of two nationwide commercial banks, the Commercial Bank of Korea (established in 1899) and Hanil Bank (established in 1932). Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea. As of December 31, 2007, Woori Bank was the second-largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2007, Woori Bank had more than 14 million customers, with 869 branches nationwide.

Kyongnam Bank

Established in April 1970, Kyongnam Bank is a regional commercial bank that provides financial services in Masan and Ulsan and other parts of the South Kyongsang province in southeastern Korea. Kyongnam Bank concentrates on consumer banking, as well as corporate banking for small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2007, Kyongnam Bank had approximately 2 million customers, with 147 branches throughout southeastern Korea and Seoul.

Kwangju Bank

Established in September 1968, Kwangju Bank is a regional commercial bank that provides financial services in Kwangju and southwestern Korea. Kwangju Bank concentrates on the consumer and small- and medium-sized enterprise banking sectors, offering various deposit and loan products to customers in those sectors and, to a lesser extent, large corporate customers. As of December 31, 2007, Kwangju Bank had approximately 2.9 million customers, with 124 branches throughout southwestern Korea and 4 branches in Seoul.

Other Subsidiaries

The following table provides summary Korean GAAP information regarding our other significant consolidated subsidiaries (other than special purpose companies) as of or for the year ended December 31, 2007:

Subsidiary	**Percentage of Ownership [1]**	**Total Assets**	**Stockholders Equity**	**Operating Revenue**	**Net Income**
			(in millions of Won)		
Woori Credit Suisse Asset Management Co., Ltd.	70%	(Won) 82,216	(Won) 71,278	(Won) 24,841	(Won) 15,198
Woori Private Equity Co., Ltd.	100	278,006	149,006	56,928	40,349
Woori F&I Co., Ltd.	100	13,430	11,949	2,043	1,857
Woori Finance Information System Co., Ltd.	100	233,540	7,531	8,973	261

Woori Financial Co., Ltd.[(2)]	51	1,154,122	178,633	799	745

(1) Including both direct and indirect ownership.

(2) We acquired 8,499,955 shares of Woori Financial in September 2007. This represented an ownership interest of 51.4% under U.S. GAAP and 50.1% under Korean GAAP. Under U.S. GAAP, ownership interest in a company is calculated by dividing the number of acquired shares by the total number of shares outstanding. Under Korean GAAP, ownership interest is calculated by dividing the number of acquired shares by the number of issued shares.

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Item 4D. ***Property, Plants and Equipment***

Our registered office and corporate headquarters, with a total area of approximately 97,222 square meters, are located at 203, 1-ga, Hoehyon-dong, Chung-Gu, Seoul, Korea. Information regarding certain of our properties in Korea is presented in the following table:

Type of Facility/Building	Location	Area (square meters)
Woori Finance Holdings and Woori Bank registered office and corporate headquarters	203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea 100-792	97,222
Kyongnam Bank registered office and corporate headquarters	246-1 Seockcheon-dong, Masan City, Kyongnam Province, Korea 630-010	29,457
Kwangju Bank registered office and corporate headquarters	7-12 Daein-dong, Dong-gu, Kwangju, Korea 501-030	47,007
Woori Finance Information System registered office and corporate headquarters	11-4 Shincheon-dong, Songpa-gu, Seoul, Korea	21,309

As of December 31, 2007, we had a network of 1,144 banking branches in Korea. With respect to Woori Bank, approximately 253 of its branches are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Singapore, Russia and Indonesia and branches, agencies and representative offices in Asia, the United States and Europe. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us at December 31, 2007 was (Won)2,399 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

We do not have any unresolved comments from the Securities and Exchange Commission staff regarding our periodic reports under the Securities Exchange Act of 1934.

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Item 5A. ***Operating Results***

Overview

We maintain our accounts in accordance with accounting principles and practices employed by financial institutions and other enterprises in the Republic of Korea, whereas the accompanying consolidated financial statements reflect certain adjustments not recorded on our books to present these statements in accordance with U.S. GAAP. Our management uses Korean GAAP information to allocate resources and evaluate the performance of our subsidiaries.

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Investments in affiliated companies (companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in other investment assets.

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Acquisitions

In October 2004, we purchased seven million shares of LGIS in the Korean stock market for approximately (Won)55 billion. In addition, in December 2004, we purchased approximately 26 million shares of LGIS from LG Card for approximately (Won)298 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 June 2004, we acquired the 39.7% minority interest in Woori Securities that we did not own, and issued 8,571,262 new shares of our common stock valued at (Won)56 billion as the purchase price. The acquisition was accounted for under the purchase method of accounting. In connection with this acquisition, we recognized (Won)63 billion of extraordinary gain, which represented the excess of the fair value of the net assets acquired over the purchase consideration after allocations. In January 2005, we reduced the capital of Woori Securities by 42.5% or (Won)154 billion in anticipation of its planned merger with LGIS. In March 2005, we merged Woori Securities into LGIS, and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. We currently own a 35.0% voting interest in Woori Investment & Securities. As of December 31, 2007, Woori Investment & Securities had consolidated total assets of (Won)15,173 billion, consolidated total liabilities of (Won)12,577 billion and consolidated total shareholders equity of (Won)2,596 billion, on a Korean GAAP basis. For the year ended December 31, 2007, Woori Investment & Securities generated consolidated revenues of (Won)2,738 billion and consolidated net income of (Won)280 billion, on a Korean GAAP basis.

In September 2007, we acquired a 51.4% interest in Hanmi Capital from MBK Partners for approximately (Won)271 billion. We renamed the entity Woori Financial, which became a consolidated subsidiary. In connection with this acquisition, we recognized (Won)182 billion of goodwill and (Won)11 billion of customer relationship intangibles.

In April 2008, we acquired a 51.0% interest in LIG Life Insurance from LIG Insurance, Co., Ltd. and other selling shareholders for approximately (Won)76 billion. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 91.7% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. We expect to account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises may lead to increasing delinquencies and a deterioration in overall asset quality. In 2007, on a Korean GAAP basis, we recorded charge-offs of (Won)157 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of (Won)107 billion 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.

In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. However, the rapid growth in consumer credit led to increasing delinquencies, loan loss provisions, non-performing loans and charge-offs, which began to stabilize in 2005. In 2007, on a Korean GAAP basis, we recorded charge-offs of (Won)186 billion and provisions of (Won)103 billion in respect of our consumer loan portfolio, compared to charge-offs of (Won)74 billion and provisions of (Won)109 billion in 2006. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

The Korean economy is also closely tied to, and is affected by developments in, the global economy. During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. These conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global credit and financial markets. We are exposed to adverse developments in the U.S. sub-prime mortgage market through our holdings of collateralized debt obligations related to U.S. mortgage loans. As of December 31, 2007, we held, through Woori Bank, approximately (Won)980 billion in face value of collateralized debt obligations, of which approximately (Won)460 billion were related to U.S. sub-prime mortgages. We recognized impairment losses of (Won)417 billion in 2007 with respect to our holdings of U.S. sub-prime mortgage-related collateralized debt obligations as well as impairment losses of (Won)89 billion with respect to other collateralized debt obligations, which in turn resulted in a decrease in net gain on investment securities and contributed to a decrease in our non-interest income in 2007 as compared to 2006. We are also exposed to adverse developments in the U.S. and global credit markets through our holdings of derivatives. As of December 31, 2007, our total exposure under credit derivatives outstanding was approximately (Won)615 billion (including (Won)146 billion of credit derivatives relating to Korean companies), principally through credit default swaps and total return swaps held by Woori Bank. We recognized losses on valuation of our credit derivatives amounting to (Won)130 billion in 2007, which in turn resulted in a decrease in our net trading revenue and contributed to a decrease in our non-interest income in 2007 as compared to 2006. Furthermore, in the first quarter of 2008, the fair value of our holdings of collateralized debt obligations and credit derivatives declined further following the downgrades of ratings of such instruments by various rating agencies. For the three months ended March 31, 2008, on a Korean GAAP basis, we recognized a decrease in the fair value of our holdings of collateralized debt obligations of approximately (Won)93 billion and losses on valuation of our credit derivatives of approximately (Won)44 billion. Continued adverse conditions in the U.S. sub-prime mortgage and U.S. and global credit markets could result in additional losses on collateralized debt obligations as well as credit derivatives held by us. See Item 3D. Risk Factors Other risks relating to our business Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance. In addition, recent increases in credit spreads, as well as limitations on the availability of credit, may affect our ability to borrow, which may adversely affect our liquidity and performance. See Item 3D. Risk Factors Risks relating to liquidity and capital management.

As a result of the developments in the Korean and global economy described above, as well as factors such as high oil prices, the weakness of the economy in certain parts of the world, the war in Iraq and its aftermath and tensions with North Korea, the economic outlook for the financial services sector in Korea in 2008 and for the foreseeable future is uncertain.

New Basel Capital Accord

Beginning on January 1, 2008, the Financial Supervisory Service implemented Basel II in Korea, substantially affecting on the way risk is measured among Korean financial institutions, including us. 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 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 is currently using a standardized approach but 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 and is expected to be implemented in 2009. Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. While we believe that Woori Bank s implementation of an internal ratings-based approach for the first time in 2009 will not lead to a significant increase in its capital requirements, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank s credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the Stock Market Division of the Korea Exchange as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	Dec. 31, 2003	June 30, 2004	Dec. 31, 2004	June 30, 2005	Dec. 31, 2005	June 30, 2006	Dec. 31, 2006	June 30, 2007	Dec. 31, 2007
KOSPI	810.71	785.79	895.92	1,008.16	1,379.37	1,295.15	1,434.46	1,743.60	1,897.13
(Won)/US$ exchange rates [1]	(Won) 1,192.0	(Won) 1,156.0	(Won) 1,035.1	(Won) 1,034.5	(Won) 1,010.0	(Won) 948.5	(Won) 930.0	(Won) 922.6	(Won) 935.8
Corporate bond rates [2]	5.7%	5.0%	3.9%	4.4%	5.7%	5.3%	5.4%	5.6%	6.9%
Treasury bond rates [3]	4.8%	4.2%	3.3%	4.0%	5.1%	4.9%	4.9%	5.3%	5.7%

(1) Represents the noon buying rate on the dates indicated.
(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.
(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Finance and Economy of Korea.

Critical Accounting Estimates

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of our policies involve accounting estimates and are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting estimates below.

Allowance for Credit Losses

We have established an allowance for losses on loans, leases and other credits, which is available to absorb losses that we incur in our credit portfolio. This allowance is based on our continuing review of the credit portfolio, which we evaluate for impairment on an ongoing basis, and represents our best estimate of probable losses that have been incurred as of the balance sheet date. If we believe that additions or changes to the allowance for credit losses are required, then we record provisions for credit losses, which are treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual credit losses, net of recoveries of previously charged-off amounts, are charged directly against the allowance for credit losses.

We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our credit portfolio. That evaluation considers factors such as past loss experience, the financial condition of our borrowers and current economic conditions. We evaluate corporate loans and consumer loans in different ways, due to their respective characteristics, as follows:

We generally evaluate impaired corporate loans individually, due to the unique characteristics of the individual corporate borrowers, and establish an allowance for loan losses for individual impaired corporate loans. As described in Note 1 of the notes to our consolidated financial statements included elsewhere in this annual report, we consider a loan impaired when, after considering current information and events, we believe it is probable that we will be unable to collect all amounts due, including principal and interest, under the contractual terms of the loan. 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. Alternatively, as a practical expedient, we measure the value of the loan at the loan s observable market price or, if the loan is collateral dependent, at the fair value of the collateral. If the measured value is less than the book value of the loan, we establish a specific allowance for the amount deemed uncollectible.

We also establish an allowance for loan losses for corporate loans that we do not believe are impaired using an expected loss methodology. Expected losses are determined using the probability of default and the likely severity of any resulting loss and are established based on historical loss experience.

We establish an allowance for loan losses related to leases using the same method we use to establish allowance for losses for corporate loans.

We generally evaluate consumer loans, including mortgage and home equity loans, and credit card balances as individual pools for loan loss reserve purposes due to their homogeneous nature, and establish an allowance for loan losses relating to each pool using an expected loss methodology, based on historical loss experience. For loans originating from our credit card operations, we generally evaluate these loans for loan loss reserve purposes as two pools of homogeneous loans: the loans held in our credit card accounts; and the securitized loans held in our special purpose entities. Our loan loss reserves for credit card loans are established based on expected loss methodology. This methodology is the product of expected default frequency and loss severity. Expected default frequency is calculated using the delinquency roll-rate for the past fiscal year. We also generally compare our loan loss reserve with expected charge-offs for the next fiscal year for the purpose of evaluating the sufficiency of our loan loss reserve.

We establish an allowance for losses for credit-related commitments using the same method we use to establish allowances for our loans.

We believe that the accounting estimate related to our allowance for credit losses is a critical accounting policy because: (1) it is highly susceptible to change from period to period because we must make assumptions about future default rates and losses relating to our credit portfolio; and (2) any significant difference between our estimated credit losses (as reflected in our allowance for credit losses) and actual credit losses could require us to take additional provisions which, if significant, could have a material impact on our net income. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Our consolidated financial statements for the year ended December 31, 2007 included a total allowance for credit losses of (Won)1,891 billion as of that date (including allowances of (Won)156 billion with respect to credit-related commitments). Our total loan charge-offs, net of recoveries, amounted to (Won)350 billion and our provision for credit losses amounted to (Won)164 billion (which reflects a reversal of provisions for credit-related commitments of (Won)54 billion) in 2007.

Valuation of Securities and Financial Instruments

We invest in various financial instruments including debt and equity securities, derivatives and investments in venture capital activities. Depending on the accounting treatment specific to each type of financial instrument, an estimate of fair value determines the instrument s effect on our consolidated financial statements.

Trading assets and liabilities: Trading assets include securities that are bought and held principally for the purpose of selling them in the near term. Trading positions are carried at fair value and recorded on a trade date basis. Trading assets and liabilities also include derivatives and foreign exchange contracts used for trading purposes that do not qualify for hedge accounting, as well as those used for other than trading purposes, all of which we carry at fair value. We recognize changes in the fair value of any of these assets and liabilities in net trading revenue as they occur. While the majority of fair value estimates for trading assets and liabilities are made based on quoted market prices, in 2007, approximately 36.3% or (Won)5,498 billion, of the fair value of these assets and liabilities was determined using third-party broker quotations or through our discounted cash flow model. That model discounts the expected cash flows using market interest rates commensurate with the credit quality and duration of the investment.

Available-for-sale debt and marketable equity securities: We classify our investments in debt and marketable equity securities as available-for-sale when we intend to hold the securities for an indeterminate period of time or when the securities may be sold from time to time to effectively manage interest rate exposure and liquidity needs. We generally designate all securities not classified as held-to-maturity securities or trading securities as available-for-sale securities. We record available-for-sale securities at fair value. For debt securities, we amortize premiums and accrete discounts using the effective interest rate method. Realized gains and losses on available-for-sale securities are determined using the specific identification method for debt securities and moving average method for equity securities. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in accumulated other comprehensive income, net of tax. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of the related loss in earnings. In 2007, approximately 34.6%, or (Won)8,434 billion, of the fair value of available-for-sale debt was determined using third-party broker quotations or through our discounted cash flow model.

Held-to-maturity debt securities: We classify our investments in debt securities as held-to-maturity when we have the positive ability and intent to hold those securities until maturity. We record these securities at amortized cost and adjust those values for accretion and amortization of discounts and premiums. Declines in fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the securities to their fair value.

Non-marketable equity securities: Non-marketable equity securities, restricted stock and investments in limited partnerships do not have readily determinable fair values. To the extent we do not have significant influence over the investee, we record such securities using the cost method of accounting. Under this method, we will not change the cost basis of individual securities unless there is other-than-temporary decline in value, which results in write-downs of those securities to their fair value. The fair values of non-marketable equity securities are based on the latest obtainable net asset value of the investees, which often reflect cost or other reference events. Any changes in the information or assumptions used in obtaining the fair values could significantly affect the fair value of these investments. If we have significant influence over the operations and financial policies of the investee, we record such securities using the equity method of accounting, pursuant to which we record our equity ownership share of the net income or loss of the investee.

If available, quoted market prices provide the best indication of fair value. We determine the fair value of our securities and financial instruments using quoted market prices when available. If quoted market prices are not available, we determine the fair value based on pricing models, quoted prices of instruments with similar characteristics, discounted cash flows or the net asset value of the investee. The fair values calculated based on pricing and valuation models or the discounted cash flow analyses are subject to various assumptions used which, if changed, could significantly affect the fair values of the investments. These assumptions relate to discount rates, cash flows and certain modeling techniques, among other things.

With respect to the valuation of collateralized debt obligations, we value these instruments using pricing models and discounted cash flow methodologies incorporating assumptions that, in our management s judgment, reflect the assumptions a marketplace participant would use at such time. In the most liquid markets, readily available or observable prices are used in valuing such instruments. In less liquid markets, such as those that we have encountered since the second half of 2007, the lack of these prices necessitates the use of other available information and modeling techniques to approximate the fair value for some of these instruments. In particular, the markets for U.S. mortgage-related collateralized debt obligations remain extremely illiquid, and as a result, valuation of these exposures is complex and involves a comprehensive process including the use of quantitative modeling and management judgment. Valuation of our exposures to these instruments will also continue to be impacted by external market factors including default rates, rating agency actions, and the prices at which observable market transactions occur. To determine fair value of collateralized debt obligations where lack of observable prices is most severe, we employ waterfall, market value and option pricing approaches with the assistance of a third-party valuation firm. These approaches are based on several assumptions including interest rate curves, credit spreads, default rates and recovery rates which are derived from rating agencies and other market sources. While we believe that our methodology is reasonable, the fair value estimates are highly sensitive to changes under certain assumptions relating to market conditions. Different expected default ratios, recovery ratios and market spreads, in particular, may result in substantial changes in the estimated fair value of collateralized debt obligations.

In connection with the recognition of other-than-temporary impairment, the length of time a security has been below cost is the primary factor we consider in assessing whether an impairment loss should be recognized. Other factors we consider include the financial condition and near-term prospects of the issuer, including any specific events that may influence the issuer s operations such as changes in technology that may impair its earnings potential or the discontinuance of a segment of its business that may affect future earnings potential, our intent and ability to retain its investment in the security for a period of time sufficient to allow for any recovery in market value, and (for domestic securities only) the state of the Korean economy. Any changes in these assumptions could significantly affect the valuation and timing of recognition of an other-than-temporary impairment.

We believe that the accounting estimates related to the fair market value of our various securities are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimated fair value of these securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these securities could result in valuation losses or losses on disposal which may have a material impact on our net income. Our assumptions about the fair market value of securities we hold, and in particular whether any decline in the value of our available-for-sale or held-to-maturity securities is temporary, require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Valuation Allowance for Deferred Tax Assets and Uncertain Tax Positions

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from tax authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter. From January 1, 2007, with respect to accounting for uncertainty in our tax positions, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN No. 48), which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

This interpretation uses a two-step approach, wherein a tax benefit is recognized if a tax position is more likely than not to be sustained upon examination by tax authorities, and the amount recognized is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities. Differences between tax positions taken in a tax return and amounts recognized are reflected in the financial statements as adjustments of income tax expense or deferred tax assets (liabilities). In addition, interest and penalties related to tax positions are classified as a component of income tax expense. FIN No. 48 also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including detailed carry-forwards of tax benefits taken that do not qualify for financial statement recognition.

As a result of substantial losses previously incurred by certain of our subsidiaries, including Woori Bank, we had an aggregate of (Won)1,065 billion of net operating loss carry-forwards as of December 31, 2007, which expire from 2008 to 2011. We may be able to use these net operating loss carry-forwards, as well as temporary differences in the amount of assets and liabilities recorded for tax purposes and accounting purposes, to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then, based on our internal estimates of our future profits, establish a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be realized. We recognize an expense or benefit in calculating our income tax expense when there is a net change in our total deferred tax assets and liabilities in a period.

In 2005, we reduced the valuation allowance by (Won)244 billion based on our expectations as of year-end regarding the future profitability of our credit card business and due to the realization of net operating loss carry-forwards with respect to such business and recorded income tax expenses of (Won)366 billion. In 2006, we further reduced the valuation allowance by (Won)45 billion based on our expectations as of the year-end regarding the future profitability of our subsidiaries businesses, including our credit card business, and the resulting belief that it would be more likely than not that the realization of our subsidiaries net operating loss carry-forwards would be higher over the next few years. We recorded income tax expenses of (Won)615 billion in 2006, which reflected the realization of parts of such net operating loss carry-forwards relating to such businesses of our subsidiaries. In 2007, we further reduced the valuation allowance by (Won)46 billion based on our expectations as of year-end regarding future profitability of our subsidiaries businesses, including our credit card business, and the resulting belief that it would be more likely than not that the realization of our subsidiaries net operating loss carry-forwards would be higher over the next few years. We recorded income tax expenses of (Won)837 billion in 2007, which reflected the realization of parts of such net operating loss carry-forwards relating to such businesses of our subsidiaries.

We believe that the estimates related to our recognition and measurement of uncertain tax positions and the establishment of the valuation allowance for deferred tax assets are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding the final outcome of our uncertain tax positions and our future profitability; and (2) any significant difference between our estimates of such outcomes and future profits on any particular date and estimates of such outcomes and future profits on a different date could result in an income tax expense or benefit which may have a material impact on our net income from period to period. Our assumptions about the final outcomes of our uncertain tax positions and our future profitability require significant judgment and are inherently subjective.

Goodwill and Other Intangible Assets

Goodwill represents the excess of acquisition cost over the fair value of assets and liabilities acquired in a business combination. We allocate goodwill to the reporting unit level, which we define as an operating segment, or one level below. We do not amortize goodwill. Instead, we perform tests for impairment of goodwill annually or more frequently if events or circumstances indicate that it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value is less than the carrying amount, a second test is required to measure the amount of goodwill impairment. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, we recognize an impairment loss in an amount equal to that excess. Impairment assessments are performed using a variety of valuation methodologies, including discounted cash flow estimates. Our management estimates the future cash flows expected to be derived from the use and, if applicable, the terminal value of the assets. The key variables that our management must estimate include, among other factors, market trading volume, market share, fee income, growth rate and profitability margin. Although the assumptions used are consistent with internal planning, significant management judgment is involved in estimating these variables, which include inherent uncertainties. A discount rate is applied to the cash flow estimates considering our cost of capital rate and specific country and industry risk factors.

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In connection with our past acquisitions and other transactions, we also recognized other intangible assets consisting principally of (i) exclusive contractual rights to act as the main bank for municipal governments and non-profit organizations, (ii) capitalized software costs and (iii) core deposit intangible assets reflecting the value of acquired demand deposits and savings accounts which we expect to maintain for an extended period of time because of generally stable customer relationships. See Note 15 of the notes to our consolidated financial statements. We recorded our other intangible assets at their estimated fair values. We recorded our other intangible assets at their estimated fair values. We amortize these intangible assets over their estimated useful lives. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these intangible assets. We periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

We believe that the accounting estimates related to the fair values of our acquired goodwill and our other intangible assets are a critical accounting policy because: (1) they may be highly susceptible to change from period to period because they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant changes in our estimates could result in impairment losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill and other intangible assets could fluctuate in the future, based on a variety of factors.

Results of Operations

Net Interest Income

The following table shows, for the periods indicated, the principal components of our interest and dividend income:

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Interest and dividend income					
Loans	(Won) 5,727	(Won) 7,560	(Won) 9,629	32.0%	27.4%
Deposits in other banks	46	49	82	7.3	66.4
Trading securities	158	216	390	36.6	80.4
Investment securities	1,214	1,473	1,996	21.4	35.5
Call loans and securities purchased under resale agreements	64	67	95	4.2	47.8
Total interest and dividend income	7,209	9,365	12,192	29.9	30.2
Interest expense					
Deposits	2,501	3,504	4,925	40.1	40.6
Call money	29	71	96	143.9	35.5
Other borrowed funds	294	452	624	53.7	38.1
Secured borrowings	114	115	180	0.9	56.5
Long-term debt	789	1,323	1,831	67.7	38.4
Total interest expense	3,727	5,465	7,656	46.6	40.1
Net interest income	(Won) 3,482	(Won) 3,900	(Won) 4,536	12.0	16.3
Net interest margin (1)	2.73%	2.50%	2.28%		

(1) The ratio of net interest income to average interest-earning assets.

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Comparison of 2007 to 2006

Interest and dividend income. Interest and dividend income increased 30.2% from (Won)9,365 billion in 2006 to (Won)12,192 billion in 2007, primarily as a result of a 27.4% increase in interest on loans, which was enhanced by a 35.5% increase in interest and dividends on investment securities. The average balance of our interest-earning assets increased by 27.5% from (Won)155,750 billion in 2006 to (Won)198,528 billion in 2007, which was primarily due to the growth in our loan portfolio. This increase was enhanced by a 13 basis point increase in average yields on our interest-earning assets from 6.01% in 2006 to 6.14% in 2007, principally due to the increase in the general levels of interest rates in Korea from 2006 to 2007.

The 27.4% increase in interest on loans from (Won)7,560 billion in 2006 to (Won)9,629 billion in 2007 was primarily the result of:

- a 32.9% increase in the average volume of commercial and industrial loans from (Won)56,055 billion in 2006 to (Won)74,505 billion in 2007, which was enhanced by a 9 basis point increase in the average yields on such loans from 6.29% in 2006 to 6.38% in 2007; and

- a 17.7% increase in average volume of general purpose household loans from (Won)46,032 billion in 2006 to (Won)54,198 billion in 2007, which was enhanced by a 60 basis point increase in the average yields on such loans from 5.94% in 2006 to 6.54% in 2007.

The increase in the average volume of commercial and industrial loans was mainly due to our continuing marketing efforts targeted towards small- and medium-sized enterprises. The increase in the average volume of general purpose household loans reflected increased lending to consumers due to higher retail loan demand. The average yields for commercial and industrial loans and general purpose household loans increased primarily as a result of the general rise in market interest rates in 2007.

Overall, the average volume of our loans increased 23.3%, from (Won)119,758 billion in 2006 to (Won)147,639 billion in 2007, while the average yields on our loans increased 21 basis points, from 6.31% in 2006 to 6.52% in 2007, reflecting the higher interest rate environment in Korea.

Our securities portfolio consists primarily of investment securities, of which a substantial majority was debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Bank of Korea, the KDIC and the Korea Development Bank). Interest and dividends on trading and investment securities increased 41.2% from (Won)1,689 billion in 2006 to (Won)2,386 billion in 2007, primarily due to a 32.0% increase in the average volume of investment securities from (Won)27,091 billion in 2006 to (Won)35,764 in 2007, which was enhanced by a 14 basis point increase in average yields on such securities from 5.44% in 2006 to 5.58% in 2007. The increase in average volume was primarily a result of an increase in the average volume of available-for-sale securities, while the increase in average yields was principally due to the general rise in market interest rates in 2007.

Interest Expense. Interest expense increased 40.1% from (Won)5,465 billion in 2006 to (Won)7,656 billion in 2007, primarily due to a 40.6% increase in interest expense on deposits, a 38.4% increase in interest expense on long-term debt and a 38.1% increase in interest expense on other borrowed funds. The average balance of our interest-bearing liabilities increased 28.0% from (Won)150,222 billion in 2006 to (Won)192,239 billion in 2007, principally due to increased deposits and long-term debt. This increase was enhanced by a 34 basis point increase in the average cost of our interest-bearing liabilities from 3.64% in 2006 to 3.98% in 2007, which reflected the general rise in market interest rates in 2007.

The 40.6% increase in interest expense on deposits from (Won)3,504 billion in 2006 to (Won)4,925 billion in 2007 was primarily the result of:

- a 24.5% increase in the average volume of other time deposits (other than certificate of deposit accounts) from (Won)61,814 billion in 2006 to (Won)76,989 billion in 2007, which was enhanced by a 39 basis point increase in the average cost of such deposits from 4.16% in 2006 to 4.55% in 2007; and a 86.4% increase in the average volume of certificate of deposit accounts from (Won)10,525 billion in 2006 to (Won)19,618 billion in 2007, which was enhanced by a 42 basis point increase in the average cost of such deposit accounts from 4.64% in 2006 to 5.06% in 2007.

Overall, the average volume of our deposits increased by 23.3% from (Won)108,083 billion in 2006 to (Won)133,280 billion in 2007, primarily due to our increased marketing efforts for deposits in order to fund our higher lending levels, while the average cost of our deposits increased by 46 basis points from 3.24% in 2006 to 3.70% in 2007, principally as a result of the higher interest rate environment in Korea.

The 38.4% increase in interest expense on long-term debt from (Won)1,323 billion in 2006 to (Won)1,831 billion in 2007 was mainly the result of a 43.9% increase in the average volume of such debt from (Won)26,979 billion in 2006 to (Won)38,817 billion in 2007, which was primarily due to our efforts to increase stable funding sources. This increase was partially offset by an 18 basis point decrease in the average cost of such debt from 4.90% in 2006 to 4.72% in 2007, due mainly to an increase in the portion of our long-term debt consisting of borrowings from government funds and municipal governments, which generally carry lower interest rates than other types of long-term debt.

The 38.1% increase in interest expense on other borrowed funds, which consist primarily of short-term borrowings from other banks, borrowings from our trust accounts, short-term debentures and borrowings from the Bank of Korea, from (Won)452 billion in 2006 to (Won)624 billion in 2007, was primarily due to a 37.0% increase in the average volume of short term borrowings (other than from the Bank of Korea) from (Won)9,582 billion in 2006 to (Won)13,124 billion in 2007, which was enhanced by a 14 basis point increase in the average cost of such short-term borrowings from 4.38% in 2006 to 4.52% in 2007, reflecting the higher interest rate environment.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest-earning assets. Our overall net interest margin decreased from 2.50% in 2006 to 2.28% in 2007, as the increase in the average volume of our interest-earning assets outpaced the increase in our net interest income. The average volume of our interest-earning assets increased 27.5% from (Won)155,750 billion in 2006 to (Won)198,528 billion in 2007, while net interest income increased 16.3% from (Won)3,900 billion in 2006 to (Won)4,536 billion in 2007. The growth in average interest-earning assets outpaced a 28.0% increase in the average balance of our interest-bearing liabilities from (Won)150,222 billion in 2006 to (Won)192,239 billion in 2007, while the increase in interest and dividend income outpaced an increase in interest expense. However, net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, decreased from 2.37% in 2006 to 2.16% in 2007. The decrease in net interest spread reflected a larger increase in the average cost of interest-bearing liabilities from 2006 to 2007 (including as a result of sharp growth in the average volume of other time deposits and certificate of deposit accounts, where the increase in average cost was also relatively large), which outpaced the increase in average yield of our interest-bearing assets (which was slowed by a relatively small increase in average yield on commercial and industrial loans, where the growth in average volume was relatively large).

Comparison of 2006 to 2005

Interest and dividend income. Interest and dividend income increased 29.9% from (Won)7,209 billion in 2005 to (Won)9,365 billion in 2006, primarily as a result of a 32.0% increase in interest on loans, enhanced by a 21.4% increase in interest and dividends on investment securities. The average balance of our interest-earning assets increased by 22.0% from (Won)127,619 billion in 2005 to (Won)155,750 billion in 2006, which was primarily due to the growth in our loan portfolio. This increase was enhanced by a 36 basis point increase in average yields on our interest-earning assets from 5.65% in 2005 to 6.01% in 2006, principally due to the increase in the general levels of interest rates in Korea from 2005 to 2006.

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The 32.0% increase in interest on loans from (Won)5,727 billion in 2005 to (Won)7,560 billion in 2006 was primarily the result of:

- a 43.3% increase in average volume of general purpose household loans from (Won)32,112 billion in 2005 to (Won)46,032 billion in 2006; and

- a 22.7% increase in the average volume of commercial and industrial loans from (Won)45,667 billion in 2005 to (Won)56,055 billion in 2006, enhanced by a 34 basis point increase in the average yields on such loans from 5.95% in 2005 to 6.29% in 2006.

The increase in the average volume of general purpose household loans reflected increased lending to consumers due to higher loan demand and our continuing focus on the retail loan segment. The increase in the average volume of commercial and industrial loans was mainly due to our increased marketing efforts to corporate borrowers including small- and medium-sized enterprises. The average yields for commercial and industrial loans increased mainly due to the general rise in market interest rates in 2006.

Overall, the average volume of our loans increased 25.3%, from (Won)95,583 billion in 2005 to (Won)119,758 billion in 2006, while the average yields on our loans increased 32 basis points, from 5.99% in 2005 to 6.31% in 2006, reflecting the higher interest rate environment in Korea.

Interest and dividends on trading and investment securities increased 23.1% from (Won)1,372 billion in 2005 to (Won)1,689 billion in 2006, primarily due to an 11.5% increase in the average volume of investment securities from (Won)24,296 billion in 2005 to (Won)27,091 in 2006, which was enhanced by a 44 basis point increase in average yields on such securities from 5.00%, in 2005 to 5.44% in 2006. The increase in average volume was primarily a result of an increase in the average volume of available-for-sale securities, while the increase in average yields was principally due to the general rise in market interest rates in 2006.

Interest Expense. Interest expense increased 46.6% from (Won)3,727 billion in 2005 to (Won)5,465 billion in 2006, primarily due to a 40.1% increase in interest expense on deposits, a 67.7% increase in interest expense on long-term debt and a 53.7% increase in interest expense on other borrowed funds. The average balance of our interest-bearing liabilities increased 23.4% from (Won)121,754 billion in 2005 to (Won)150,222 billion in 2006, principally due to increased deposits and long-term debt. This increase was enhanced by a 58 basis point increase in the average cost of our interest-bearing liabilities from 3.06% in 2005 to 3.64% in 2006, which reflected the general rise in market interest rates in 2006.

The 40.1% increase in interest expense on deposits from (Won)2,501 billion in 2005 to (Won)3,504 billion in 2006 was primarily the result of:

- an 18.2% increase in the average volume of other time deposits (other than certificate of deposit accounts) from (Won)52,277 billion in 2005 to (Won)61,814 billion in 2006, which was enhanced by a 53 basis point increase in the average cost of such deposits from 3.63% in 2005 to 4.16% in 2006; and

- a 51.9% increase in the average volume of certificate of deposit accounts from (Won)6,931 billion in 2005 to (Won)10,525 billion in 2006, enhanced by a 91 basis point increase in the average cost of such deposit accounts from 3.73% in 2005 to 4.64% in 2006.

Overall, the average volume of our deposits increased by 18.7% from (Won)91,035 billion in 2005 to (Won)108,083 billion in 2006, primarily due to our increased marketing efforts for deposits in order to fund our higher lending levels, while the average cost of our deposits increased by 49 basis points from 2.75% in 2005 to 3.24% in 2006, principally due to the higher interest rate environment in Korea.

The 67.7% increase in interest expense on long-term debt from (Won)789 billion in 2005 to (Won)1,323 billion in 2006 was mainly the result of a 63.6% increase in the average volume of such debt from (Won)16,494 billion in 2005 to (Won)26,980 billion in 2006, which was primarily due to our efforts to increase stable funding sources. This was enhanced by a 12 basis point increase in the average cost of such debt from 4.78% in 2005 to 4.90% in 2006, due primarily to the higher interest rate environment.

The 53.7% increase in interest expense on other borrowed funds, which consist primarily of short-term borrowings from other banks, borrowings from our trust accounts, short-term debentures and borrowings from the Bank of Korea, from (Won)294 billion in 2005 to (Won)452 billion in 2006, was primarily due to a 146 basis point increase in the average cost of short-term borrowings (other than from the Bank of Korea) from 2.92% in 2005 to 4.38% in 2006, which reflected the higher interest rate environment.

Net interest margin. Our overall net interest margin decreased from 2.73% in 2005 to 2.50% in 2006, as the increase in the average volume of our interest-earning assets outpaced the increase in our net interest income. The average volume of our interest-earning assets increased 22.0% from (Won)127,619 billion in 2005 to (Won)150,750 billion in 2006, while net interest income increased 12.0% from (Won)3,482 billion in 2005 to (Won)3,900 billion in 2006. The growth in average interest-earning assets was substantially matched by a 23.2% increase in the average balance of our interest-bearing liabilities from (Won)121,754 billion in 2005 to (Won)150,022 billion in 2006, while the increase in interest and dividend income outpaced an increase in interest expense. However, net interest spread decreased from 2.59% in 2005 to 2.37% in 2006. The decrease in net interest spread reflected a larger increase in the average cost of interest-bearing liabilities from 2005 to 2006 (including as a result of sharp growth in the average volume of other time deposits and certificate of deposit accounts, where the increase in average cost was also relatively large), which outpaced the increase in average yield of our interest-bearing assets (which was slowed by a relatively small increase in average yield on general purpose household loans, where the growth in average volume was relatively large).

Provision for Loan Losses

We use provisions for loan losses to bring our allowance for loan losses to a level we deem appropriate. For a discussion of our loan loss provisioning policy, see Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy.

Comparison of 2007 to 2006

Our provision for loan losses decreased from (Won)509 billion in 2006 to (Won)219 billion in 2007, primarily as a result of overall improvement in the asset quality of our corporate and consumer loan portfolios which reflected a decrease in delinquency rates.

Our loan charge-offs, net of recoveries, increased 87.2% from (Won)187 billion in 2006 to (Won)350 billion in 2007. This increase was attributable mainly to a (Won)99 billion increase in net charge-offs of allowance relating to loans sold. Our charge-offs of allowance relating to loans sold increased as we sold (Won)489 billion of mainly non-performing corporate and consumer loans during 2007, as part of our efforts to enhance the overall asset quality of our loan portfolio.

Our provisions with respect to credit-related commitments changed from a provision of (Won)107 billion in 2006 to reversal of provision of (Won)54 billion in 2007, due to our determination in 2007 that a portion of our allowances for losses on credit-related commitments were no longer needed as a result of changes in the applicable calculation methods, which were made in preparation of the implementation of Basel II.

Our other provisions remained stable at (Won)36 billion in 2006 and 2007.

Comparison of 2006 to 2005

Our provision for loan losses increased from (Won)308 billion in 2005 to (Won)509 billion in 2006, primarily as a result of overall growth in the size of our loan portfolio.

Our loan charge-offs, net of recoveries, decreased 70.3% from (Won)626 billion in 2005 to (Won)187 billion in 2006. This decrease was attributable mainly to the decrease in impaired and non-performing loans in our overall loan portfolio, due to the improved financial condition of certain of our large corporate borrowers as well as a decrease in net charge-offs of outstanding credit card balances, which reflected the improvement in the asset quality of our credit card portfolio.

Our provisions with respect to credit-related commitments changed from a reversal of provision of (Won)39 billion in 2005 to a provision of (Won)107 billion in 2006, which was mainly attributable to an increase in our provisions for unused lines of credit.

Our other provisions increased from (Won)17 billion in 2005 to (Won)36 billion in 2006. This resulted primarily from an increase in provisions in connection with our customer loyalty programs.

Allowance for Loan Losses

We seek to maintain our allowance for loan losses at a level that we believe is sufficient to absorb estimated probable losses inherent in our loan portfolio, based on our continuing review and evaluation of that portfolio. As of December 31, 2007, our coverage ratio, which is the ratio of our total allowance to non-performing loans, was 155.0%. For a discussion of allowance for loan losses, see Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Allocation of Allowances for Loan Losses.

Corporate Loans. We establish specific allowances for loan losses for corporate loans based on whether a particular loan is impaired or not. In addition, we establish an allowance for loan losses for corporate loans that are not deemed to be impaired using an expected loss methodology based primarily on our historical loss experience, which takes into account the default probability and the potential severity of any resulting loss. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. The following table shows, for the periods indicated, certain information regarding our impaired and non-performing corporate loans:

	As of December 31,		
	2005	**2006**	**2007**
Impaired corporate loans as a percentage of total corporate loans	3.45%	2.22%	1.39%
Non-performing corporate loans as a percentage of total corporate loans	1.53	1.27	0.87
Allowance for loan losses for corporate loans as a percentage of total corporate loans	1.48	1.84	1.34
Allowance for loan losses for corporate loans as a percentage of impaired corporate loans	70.52	82.80	96.00
Allowance for loan losses for corporate loans as a percentage of non-performing corporate loans	116.10	144.79	154.05
Net charge-offs as a percentage of total corporate loans	0.24	0.19	0.19

During 2007, impaired and non-performing corporate loans and the level of allowance for loan losses for corporate loans, in each case as a percentage of total corporate loans, decreased due to the growth of our corporate loan portfolio and an overall improvement in the asset quality of our corporate loans. However, the level of allowance for loan losses for corporate loans as a percentage of both impaired and non-performing corporate loans increased as a result of the proportional growth in the level of allowance due to the growth of our corporate loan portfolio, which outpaced the decline of both our impaired corporate loans and non-performing corporate loans.

During 2006, impaired and non-performing corporate loans as a percentage of total corporate loans decreased primarily due to the growth of our corporate loan portfolio, as well as decreases in impaired loans resulting from the improved financial condition of certain of our large corporate borrowers. However, the level of

allowance for loan losses for corporate loans as a percentage of total, impaired and non-performing corporate loans increased as a result of the proportional growth in the level of allowance due to the growth of our corporate loan portfolio, which outpaced the decline of both our impaired corporate loans and non-performing corporate loans.

Consumer Credits. For consumer credits (including consumer loans and outstanding credit card balances), we establish allowances for loan losses using expected loss methodology, based primarily on our historical loss experience. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. For additional information with respect to the asset quality of our consumer credit portfolio, see Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

The following table shows, for the periods indicated, certain information regarding our non-performing loans to the consumer sector, excluding credit card balances:

	As of December 31,		
	2005	2006	2007
Non-performing consumer loans as a percentage of total consumer loans [1]	0.93%	0.65%	0.40%
Allowance for loan losses for consumer loans as a percentage of total consumer loans [1]	0.85	0.75	0.63
Allowance for loan losses for consumer loans as a percentage of non-performing consumer loans [1]	90.52	115.00	156.77
Net charge-offs of consumer loans as a percentage of total consumer loans [1]	0.28	0.06	0.24

(1) Excludes credit card balances.

During 2007, non-performing consumer loans and allowance for loan losses for consumer loans, each as a percentage of total consumer loans, decreased due to the growth of our consumer loan portfolio and an overall improvement in the asset quality of our consumer loans. However, the level of allowance for loan losses for consumer loans as a percentage of non-performing consumer loans increased as a result of the proportional growth in the level of allowance due to the growth of our consumer loan portfolio, which outpaced the decline of our non-performing consumer loans resulting from increased charge-offs of such loans.

During 2006, non-performing consumer loans, allowance for loan losses for consumer loans and net charge-offs of consumer loans, each as a percentage of total consumer loans, decreased due to the growth of our consumer loan portfolio and an overall improvement in the asset quality of our consumer loans. However, the level of allowance for loan losses for consumer loans as a percentage of non-performing consumer loans increased as a result of the proportional growth in the level of allowance due to the growth of our consumer loan portfolio, which outpaced the decline of our non-performing consumer loans.

The following table shows, for the periods indicated, certain information regarding our non-performing credit card balances:

	As of December 31,		
	2005	2006	2007
Non-performing credit card balances as a percentage of total credit card balances	2.20%	1.38%	1.08%
Allowance for loan losses for credit card balances as a percentage of total credit card balances	3.06	2.10	1.78
Allowance for loan losses for credit card balances as a percentage of non-performing credit card balances	139.34	151.88	164.15
Net charge-offs as a percentage of total credit card balances	4.06	0.38	0.51

During 2007, non-performing credit card balances and the level of allowance for loan losses for credit card balances, in each case as a percentage of total credit card balances, decreased due to an overall improvement in the asset quality of our credit card portfolio. However, the level of allowance for loan losses for credit card

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balances as a percentage of non-performing credit card balances increased as a result of the proportional growth in the level of allowance due to the growth of our credit card balances, which outpaced the decline of our non-performing credit card balances.

During 2006, non-performing credit card balances, the level of allowance for loan losses for credit card balances and net charge-offs, in each case as a percentage of total credit card balances, decreased due to an overall improvement in the asset quality of our credit card portfolio. However, the level of allowance for loan losses for credit card balances as a percentage of non-performing credit card balances increased as a result of the further deterioration in the asset quality of existing non-performing credit card balances.

Non-Interest Income

The following table sets forth for the periods indicated the components of our non-interest income:

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Fees and commission income	(Won) 1,203	(Won) 1,397	(Won) 1,691	16.1%	21.0%
Net trading revenue	256	331	15	29.3	(95.5)
Trust fees, net	13	24	25	84.6	4.2
Net gain (loss) on investment securities	244	462	258	89.3	(44.2)
Other non-interest income	200	210	233	5.0	11.0
Total non-interest income	(Won) 1,916	(Won) 2,424	(Won) 2,222	26.5	(8.3)

Comparison of 2007 to 2006

Non-interest income decreased 8.3% from (Won)2,424 billion in 2006 to (Won)2,222 billion in 2007. This decrease was primarily attributable to:

- a (Won)316 billion decrease in net trading revenue from (Won)331 billion in 2006 to (Won)15 billion in 2007; and

- a (Won)204 billion decrease in net gain on investment securities from (Won)462 billion in 2006 to (Won)258 billion in 2007.

These decreases were partially offset by a (Won)294 billion increase in fees and commission income from (Won)1,397 billion in 2006 to (Won)1,691 billion in 2007.

Net trading revenue represents net realized and unrealized gains (or losses) on securities and derivatives in our trading portfolio. The 95.3% decrease in net trading revenue from 2006 to 2007 was primarily the result of net losses of (Won)227 billion on derivative instruments within our trading portfolio, including valuation losses of (Won)127 billion on credit default swaps and total return swaps due to the deterioration of U.S. and global credit markets in 2007.

Net gain on investment securities represents net realized gains (or losses) and impairment losses on securities in our investment portfolio. The 44.2% decrease in net gain on investment securities from 2006 to 2007 resulted primarily from the (Won)417 billion and (Won)89 billion of impairment losses we recognized in 2007 with respect to U.S. sub-prime mortgage-related collateralized debt obligations and other collateralized debt obligations, respectively, within our investment portfolio. The effect of this decrease was partially offset by a (Won)241 billion increase in net gain on equity securities.

Fees and commission income consists of fees on trade finance and other commercial fees, including commissions from Internet-based banking and bancassurance and commissions from credit card sales. The 21.0% increase in fees and commission income from 2006 to 2007 resulted primarily from increases in fees and commissions relating to our sales of beneficiary certificates.

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Comparison of 2006 to 2005

Non-interest income increased 26.5% from (Won)1,916 billion in 2005 to (Won)2,424 billion in 2006. This increase was primarily attributable to:

- a (Won)218 billion increase in net gain on investment securities from (Won)244 billion in 2005 to (Won)462 billion in 2006;
- a (Won)194 billion increase in fees and commission income from (Won)1,203 billion in 2005 to (Won)1,397 billion in 2006; and
- a (Won)75 billion increase in net trading revenue from (Won)256 billion in 2005 to (Won)331 billion in 2006.

The 89.3% increase in net gain on investment securities from 2005 to 2006 resulted primarily from an increase in the volume of transactions with respect to our investment securities.

The 16.1% increase in fees and commission income from 2005 to 2006 resulted primarily from increases in fees and commissions relating to our sales of bancassurance products and beneficiary certificates as well as fees from Woori Bank s investment banking activities.

The 29.3% increase in net trading revenue was primarily the result of an increase in gains on disposal and valuation of our trading securities due to favorable market conditions.

Non-Interest Expense

The following table shows, for the periods indicated, the components of our non-interest expense:

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Salaries and employee benefits	(Won) 1,009	(Won) 1,096	(Won) 1,159	8.6%	5.7%
Other administrative expenses	827	860	1,001	4.0	16.4
Fees and commissions	214	216	295	0.9	36.6
Depreciation and amortization	237	250	289	5.5	15.6
Other non-interest expenses	646	676	723	4.6	7.0
Total non-interest expense	(Won) 2,933	(Won) 3,098	(Won) 3,467	5.6	11.9

Comparison of 2007 to 2006

Non-interest expense increased 11.9% from (Won)3,098 billion in 2006 to (Won)3,467 billion in 2007. This increase was primarily due to:

- a (Won)141 billion increase in other administrative expenses from (Won)860 billion in 2006 to (Won)1,001 billion in 2007;
- a (Won)79 billion increase in fees and commissions from (Won)216 billion in 2006 to (Won)295 billion in 2007; and
- a (Won)63 billion increase in salaries and employee benefits from (Won)1,096 billion in 2006 to (Won)1,159 billion in 2007.

Other administrative expenses consist mainly of rent, outside service fees and advertising expenses. The 16.4% increase in other administrative expenses was mainly due to increases in rents paid for employee housing and outside service provider fees.

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Fees and commission expenses consist primarily of fees paid on remittances and collections, fees paid on credit cards and fees paid on letters of credit. The 36.6% increase in fees and commission expenses was primarily due to a (Won)84 billion increase in fees and commission expenses related to our credit card operations, as the number and charge volume of our credit cards increased.

The 5.7% increase in salaries and employee benefits resulted mainly from an increase to the total salary payments made to our officers and employees (including contractual employees).

Comparison of 2006 to 2005

Non-interest expense increased 5.6% from (Won)2,933 billion in 2005 to (Won)3,098 billion in 2006. This increase was primarily due to:

- a (Won)87 billion increase in salaries and employee benefits from (Won)1,009 billion in 2005 to (Won)1,096 billion in 2006;
- a (Won)33 billion increase in other administrative expenses from (Won)827 billion in 2005 to (Won)860 billion in 2006; and
- a (Won)30 billion increase in other non-interest expenses from (Won)646 billion in 2005 to (Won)676 billion in 2006.

The 8.6% increase in salaries and employee benefits resulted mainly from an increase to the total salary payments made to our officers and employees (including contractual employees).

The 4.0% increase in other administrative expenses was mainly due to an increase in rent for employee housing and outside service provider fees.

Other non-interest expense consists of losses on loans sold in prior years, losses on disposal of premises and equipment, and various other items. The 4.6% increase in other non-interest expense was mainly due to increases in contributions to credit guarantee funds and expenses relating to our voluntary early retirement program.

Income Tax Expense (Benefit)

In accordance with Korean tax regulations, income tax is calculated for each legal entity, subsidiary or otherwise, on a stand-alone basis. As a result, losses incurred by a subsidiary cannot be offset against profits earned by another subsidiary. Deferred income taxes are recorded, using the liability method, as a result of all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. A deferred income tax benefit or expense is recognized as a result of changes in deferred tax assets or liabilities between periods. Currently enacted tax rates are used to determine deferred tax amounts.

Certain of our subsidiaries have significant net operating loss carry-forwards. Based on our internal estimates of our future profits, we establish a valuation allowance to the extent that it is more likely than not that such carry-forwards and other deferral tax assets will not be realized. Increases or decreases in such valuation allowance are recognized as part of our income tax expense. See Note 31 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2007 to 2006

Income tax expense increased from (Won)620 billion in 2006 to (Won)837 billion in 2007, as income before income taxes increased 20.1% from (Won)2,574 billion in 2006 to (Won)3,090 billion in 2007. The increase in income tax expense primarily resulted from the increase to our income before income taxes.

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Comparison of 2006 to 2005

Income tax expense increased from (Won)366 billion in 2005 to (Won)620 billion in 2006, as income before income taxes increased 18.2% from (Won)2,178 billion in 2005 to (Won)2,574 billion in 2006. The increase in income tax expense resulted from the increase to our income before income taxes, as well as a decrease in valuation allowance for net operating loss carry-forwards, which is recorded as part of income tax expense, in 2005, which was repeated to a much lesser degree in 2006. See Critical Accounting Estimates Valuation Allowance for Deferred Tax Assets.

Net Income

Due to the factors described above, our net income in 2007 was (Won)2,242 billion, compared to net income of (Won)1,951 billion in 2006 and (Won)1,806 billion in 2005.

Results under Korean GAAP by Principal Business Segment

We compile and analyze financial information for our business segments based upon our internal management accounts, which are prepared in accordance with Korean GAAP. Under Korean GAAP, we currently have six operational business segments: Woori Bank, Kyongnam Bank, Kwangju Bank, credit card operations, securities brokerage services and other operations. Prior to 2004, we had five business segments. In October and December 2004, we acquired a 27.3% voting interest in LGIS, as a result of which LGIS became a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP) effective December 24, 2004. Accordingly, securities brokerage services was added as a separate segment in 2004 and includes the former operations of Woori Securities (which was merged with LGIS in March 2005) and of LGIS after the date it became a consolidated subsidiary.

The credit card operations segment comprises the former operations of Woori Credit Card, which was merged into Woori Bank in March 2004. Accordingly, the segment information appearing below for Woori Bank does not include the credit card operations it acquired as a result of this merger.

The following table shows, for the periods indicated, our results of operations by segment:

	Net income (1) Year ended December 31,			Total operating income (2) Year ended December 31,		
	2005	2006	2007	2005	2006	2007
	(in billions of Won)					
Woori Bank	(Won) 1,240	(Won) 1,480	(Won) 1,654	(Won) 11,078	(Won) 14,499	(Won) 20,347
Kyongnam Bank	133	155	161	817	985	1,353
Kwangju Bank	125	91	111	674	793	987
Credit card operations	186	162	124	570	581	722
Securities brokerage services	160	233	264	1,536	2,768	3,110
Other	1,772	1,953	2,094	2,286	2,669	2,732

Total [3]	(Won) 3,616	(Won) 4,074	(Won) 4,408	(Won) 16,961	(Won) 22,295	(Won) 29,251

(1) After deduction of income tax and minority interest allocated among each segment.
(2) Comprises interest and dividend income, non-interest income, extraordinary gain and reversal of credit loss and other allowances.
(3) Before eliminations for consolidation, inter-segment transactions and certain differences in classification under our management reporting system.

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Woori Bank

Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea. The Woori Bank segment does not include the credit card operations of Woori Bank acquired as a result of its merger with Woori Credit Card in March 2004, which are reported as a separate business segment.

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Income statement data					
Interest and dividend income	(Won) 5,659	(Won) 7,524	(Won) 9,969	33.0%	32.5%
Interest expense	2,878	4,433	6,245	54.0	40.9
Provision for loan losses and credit-related commitments	391	595	589	52.2	(1.0)
Non-interest income	5,419	6,975	10,378	28.7	48.8
Non-interest expense including depreciation and amortization.	6,416	7,536	11,291	17.5	49.8
Extraordinary gain					
Net income before tax and minority interest	1,393	1,935	2,222	38.9	14.8
Income tax expense (benefit)	152	454	567	198.7	24.9
Minority interest	1	1	1		0.0
Net income	(Won) 1,240	(Won) 1,480	(Won) 1,654	19.4	11.8
Net interest margin	3.0%	3.0%	2.6%		

Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment increased 14.8% from (Won)1,935 billion in 2006 to (Won)2,222 billion in 2007. Net income after tax also increased 11.8% from (Won)1,480 billion in 2006 to (Won)1,654 billion in 2007.

Interest and dividend income from our Woori Bank operations increased 32.5% from (Won)7,524 billion in 2006 to (Won)9,969 billion in 2007, primarily due to an increase in average lending volumes as well as an overall increase in average yields on interest-earning assets. The average volume of Woori Bank s loans (excluding credit card receivables) on a non-consolidated basis increased 26.0% from (Won)102,614 billion in 2006 to (Won)129,294 billion in 2007, with the majority of this increase resulting from increases in the average volumes of loans to small- and medium-sized enterprises and general purpose household loans (including home equity loans), reflecting increased demand for these loan products as well as Woori Bank s increased marketing efforts. The increase in average yields on interest-earning assets was attributable mainly to the general increase in market interest rates.

Interest expense increased 40.9% from (Won)4,433 billion in 2006 to (Won)6,245 billion in 2007. The increase in interest expense was primarily due to a 26.9% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from (Won)121,754 billion in 2006 to (Won)154,501 billion in 2007, which was attributable mainly to an increase in the average volume of deposits (principally other time deposits and certificate of deposit accounts) due to Woori Bank s increased marketing efforts to attract deposits in order to fund its higher lending levels, as well as an increase in the average volume of long-term debt due to Woori Bank s efforts to increase stable funding sources. This increase was enhanced by an increase in the average cost of interest-bearing liabilities resulting from the higher interest rate environment in Korea.

Net interest income increased 20.5% from (Won)3,091 billion in 2006 to (Won)3,724 billion in 2007. The increase in net interest income primarily reflected the increase in interest on loans, which was partially offset by a decrease in net interest spread, which in turn resulted from a larger increase in the cost of interest-bearing liabilities, particularly for other time deposits and certificate of deposit accounts where the growth in average volume was relatively large, compared to the relatively smaller increase in the average yield on interest-earning assets.

Provision for loan losses and credit-related commitments decreased slightly from (Won)595 billion in 2006 to (Won)589 billion in 2007. The decrease was primarily attributable to a decrease in provisions in respect of Woori Bank s corporate and consumer loan portfolios reflecting the improvement in their overall asset quality and increased sales of non-performing corporate and consumer loans in 2007.

Non-interest income increased 48.8% from (Won)6,975 billion in 2006 to (Won)10,378 billion in 2007, primarily due to an increase in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, increased 49.8% from (Won)7,536 billion in 2006 to (Won)11,291 billion in 2007, primarily as a result of increased losses on derivatives and foreign exchange, as well as investment securities impairment losses with respect to Woori Bank s holdings of U.S. sub-prime mortgage-related collateralized debt obligations.

Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment increased 38.9% from (Won)1,393 billion in 2005 to (Won)1,935 billion in 2006. Net income after tax also increased 19.4% from (Won)1,240 billion in 2005 to (Won)1,480 billion in 2006.

Interest and dividend income from our Woori Bank operations increased 33.0% from (Won)5,659 billion in 2005 to (Won)7,524 billion in 2006, primarily due to an increase in average lending volumes as well as an overall increase in average yields on interest-earning assets. The average volume of Woori Bank s loans (excluding credit card receivables) on a non-consolidated basis increased 29.8% from (Won)79,039 billion in 2005 to (Won)102,614 billion in 2006, with the majority of this increase resulting from increases in the average volumes of loans to small- and medium-sized enterprises and general purpose household loans (including home equity loans), reflecting increased demand for these loan products as well as Woori Bank s increased marketing efforts. The increase in average yields on interest-earning assets was attributable mainly to the general increase in market interest rates.

Interest expense increased 54.0% from (Won)2,878 billion in 2005 to (Won)4,433 billion in 2006. The increase in interest expense was primarily due to a 26.1% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from (Won)96,564 billion in 2005 to (Won)121,754 billion in 2006, which was attributable mainly to an increase in the average volume of deposits (principally other time deposits and certificate of deposit accounts) due to Woori Bank s increased marketing efforts to attract deposits in order to fund its higher lending levels, as well as an increase in the average volume of long-term debt due to Woori Bank s efforts to increase stable funding sources. This increase was enhanced by an increase in the average cost of interest-bearing liabilities resulting from the higher interest rate environment in Korea.

Net interest income increased 11.1% from (Won)2,781 billion in 2005 to (Won)3,091 billion in 2006. The increase in net interest income primarily reflected the increase in interest on loans, which was partially offset by a decrease in net interest spread, which in turn resulted from a larger increase in the cost of interest-bearing liabilities, particularly for other time deposits and certificate of deposit accounts where the growth in average volume was relatively large, compared to the relatively smaller increase in the average yield on interest-earning assets.

Provision for loan losses and credit-related commitments increased 52.2% from (Won)391 billion in 2005 to (Won)595 billion in 2006. The increase was primarily attributable to the increased minimum provisioning levels applicable to loans classified as normal and precautionary under Korean GAAP as required by the Financial Services Commission, as well as increased lending volumes.

Non-interest income increased 28.7% from (Won)5,419 billion in 2005 to (Won)6,975 billion in 2006, primarily due to an increase in gains on derivatives and foreign exchange as well as an increase in gains on disposal of available-for-sale securities.

Non-interest expense, including depreciation and amortization, increased 17.5% from (Won)6,416 billion in 2005 to (Won)7,536 billion in 2006, primarily as a result of increased losses on derivatives and foreign exchange.

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Kyongnam Bank

Kyongnam Bank is a regional commercial bank that provides financial services in Masan and Ulsan and other parts of the South Kyongsang province in southeastern Korea. Kyongnam Bank concentrates on consumer banking, as well as corporate banking for small- and medium-sized enterprises.

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Income statement data					
Interest and dividend income	(Won) 702	(Won) 821	(Won) 1,009	17.0%	22.9%
Interest expense	324	427	591	31.8	38.4
Provision for loan losses and credit-related commitments	61	37	38	(39.3)	2.7
Non-interest income	115	164	344	42.6	109.8
Non-interest expense including depreciation and amortization	288	314	503	9.0	60.2
Net income before tax and minority interest	144	207	221	43.8	6.8
Income tax expense	11	52	60	372.7	15.4
Minority interest					
Net income	(Won) 133	(Won) 155	(Won) 161	16.5	3.9

Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment increased 6.8% from (Won)207 billion in 2006 to (Won)221 billion 2007. Net income after tax also increased 3.9% from (Won)155 billion in 2006 to (Won)161 billion in 2007.

Interest and dividend income from our Kyongnam Bank operations increased 22.9% from (Won)821 billion in 2006 to (Won)1,009 billion in 2007, primarily due to an increase in average lending volumes and an overall increase in average yields on interest-earning assets. The average volume of Kyongnam Bank s loans increased 30.6% from (Won)9,185 billion in 2006 to (Won)11,996 billion in 2007, with substantially all of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises and mortgage and home equity loans, reflecting increased demand for, and Kyongnam Bank s continued focus on providing, these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in the average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 38.4% from (Won)427 billion in 2006 to (Won)591 billion in 2007. The increase in interest expense resulted principally from an 11.2% increase in the average volume of deposits from (Won)10,287 billion in 2006 to (Won)11,441 billion in 2007, primarily as a result of increased overall demand for bank deposit products (principally other time deposits and certificate of deposit accounts) in Korea. This increase was enhanced by an increase in long-term debt as well as an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

Provision for loan losses and credit-related commitments increased slightly from (Won)37 billion in 2006 to (Won)38 billion in 2007, primarily due to overall growth in Kyongnam Bank s loan portfolio.

Non-interest income increased 109.8% from (Won)164 billion in 2006 to (Won)344 billion in 2007, primarily due to an increase in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, increased 60.2% from (Won)314 billion in 2006 to (Won)503 billion in 2007, primarily due to increases in losses on derivatives and foreign exchange.

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Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment increased 43.8% from (Won)144 billion in 2005 to (Won)207 billion 2006. Net income after tax also increased 16.5% from (Won)133 billion in 2005 to (Won)155 billion in 2006.

Interest and dividend income from our Kyongnam Bank operations increased 17.0% from (Won)702 billion in 2005 to (Won)821 billion in 2006, primarily due to an increase in average lending volumes and an overall increase in average yields on interest-earning assets. The average volume of Kyongnam Bank s loans increased 21.9% from (Won)7,535 billion in 2005 to (Won)9,185 billion in 2006, with substantially all of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises and general purpose household loans, reflecting increased demand for, and Kyongnam Bank s continued focus on providing, these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in the average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 31.8% from (Won)324 billion in 2005 to (Won)427 billion in 2006. The increase in interest expense resulted principally from an 8.5% increase in the average volume of deposits from (Won)9,477 billion in 2005 to (Won)10,287 billion in 2006, primarily as a result of increased overall demand for bank deposit products (principally other time deposits and certificate of deposit accounts) in Korea as well as an increase in long-term debt. This increase was enhanced by an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

Provision for loan losses and credit-related commitments decreased 39.3% from (Won)61 billion in 2005 to (Won)37 billion in 2006, primarily due to an improvement in the asset quality of Kyongnam Bank s consumer and small- and medium-sized enterprise loan portfolios, which was partially offset by increased lending volumes.

Non-interest income increased 42.6% from (Won)115 billion in 2005 to (Won)164 billion in 2006, primarily due to an increase in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, increased 9.0% from (Won)288 billion in 2005 to (Won)314 billion in 2006**,** primarily due to increases in losses on derivatives and foreign exchange.

Kwangju Bank

Kwangju Bank is a regional bank that provides financial services in Kwangju and southwestern Korea. Kwangju Bank concentrates on the consumer and small- and medium-sized enterprise banking sectors, offering deposit and loan products to customers in those sectors and, to a lesser extent, large corporate customers.

	Year ended December 31,			% Change	
	2005	**2006**	**2007**	**2005/2006**	**2006/2007**

	(in billions of Won)				
Income statement data					
Interest and dividend income	(Won) 589	(Won) 704	(Won) 868	19.5%	23.3%
Interest expense	296	392	532	32.4	35.7
Provision for loan losses and credit-related commitments	73	49	50	(32.9)	2.0
Non-interest income	85	89	119	4.7	33.7
Non-interest expense including depreciation and amortization	207	228	254	10.1	11.4
Net income before tax and minority interest	98	124	151	26.5	21.8
Income tax expense (benefit) [(1)]	(27)	33	40	N/M	21.2
Minority interest					
Net income	(Won) 125	(Won) 91	(Won) 111	(27.2)	22.0

(1) N/M = not meaningful

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Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment increased 21.8% from (Won)124 billion in 2006 to (Won)151 in 2007. Net income after tax also increased 22.0% from (Won)91 billion in 2006 to (Won)111 in 2007.

Interest and dividend income from our Kwangju Bank operations increased 23.3% from (Won)704 billion in 2006 to (Won)868 billion in 2007, primarily due to an increase in average lending volumes. The average volume of Kwangju Bank s loans increased 18.6% from (Won)7,769 billion in 2006 to (Won)9,215 billion in 2007, with the majority of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises, reflecting increased demand for these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 35.7% from (Won)392 billion in 2006 to (Won)532 billion in 2007. The increase in interest expense resulted principally from a 16.0% increase in the average volume of deposits from (Won)8,905 billion in 2006 to (Won)10,329 billion in 2007, primarily as a result of Kwangju Bank s increased marketing efforts with respect to bank deposit products (principally other time deposits and certificate of deposit accounts). This increase was enhanced by an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

Provision for loan losses and credit-related commitments increased slightly from (Won)49 billion in 2006 to (Won)50 billion in 2007, primarily due to overall growth in Kwangju Bank s loan portfolio.

Non-interest income increased 33.7% from (Won)89 billion in 2006 to (Won)119 billion in 2007. This increase was due primarily to increases in fees and commissions relating to sales of investment fund and bancassurance products as well as fees from Kwangju Bank s investment banking activities.

Non-interest expense, including depreciation and amortization, increased 11.4% from (Won)228 billion in 2006 to (Won)254 billion in 2007. This increase was due primarily to increases in losses on derivatives as well as selling, general and administrative expenses.

Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment increased 26.5% from (Won)98 billion in 2005 to (Won)124 in 2006. In 2005, Kwangju Bank recognized additional deferred tax assets under Korean GAAP, which resulted in income tax benefit and a positive effect on net income after tax in that year. This was not repeated in 2006 and, accordingly, net income after tax decreased 21.2% from (Won)125 billion in 2005 to (Won)91 billion in 2006.

Interest and dividend income from our Kwangju Bank operations increased 19.5% from (Won)589 billion in 2005 to (Won)704 billion in 2006, primarily due to an increase in average lending volumes as a result of increased efforts to market loans to small- and medium-sized enterprises.

The average volume of Kwangju Bank s loans increased 22.6% from (Won)6,338 billion in 2005 to (Won)7,769 billion in 2006, with the majority of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises, reflecting Kwangju Bank s continued focus on providing these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 32.4% from (Won)296 billion in 2005 to (Won)392 billion in 2006. The increase in interest expense resulted principally from an 18.8% increase in the average volume of deposits from (Won)7,495 billion in 2005 to (Won)8,905 billion in 2006, primarily as a result of Kwangju Bank s increased marketing efforts with respect to bank deposit products (principally other time deposits and certificate of deposit accounts). This increase was enhanced by an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

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Provision for loan losses and credit-related commitments decreased 32.9% from (Won)73 billion in 2005 to (Won)49 billion in 2006, primarily due to an improvement in the asset quality of Kwangju Bank s existing consumer and small- and medium-sized enterprise loan portfolios, which was partially offset by an increase in lending volume.

Non-interest income increased 4.7% from (Won)85 billion in 2005 to (Won)89 billion in 2006. This increase was due primarily to an increase in recoveries of impairment loss previously recognized on available-for-sale securities.

Non-interest expense, including depreciation and amortization, increased 10.1% from (Won)207 billion in 2005 to (Won)228 billion in 2006. This increase was due primarily to an increase in expenses in connection with a voluntary early retirement program.

Credit Card Operations

Our credit card operations segment comprises the former operations of Woori Credit Card, which were transferred to Woori Bank as a result of the merger of Woori Credit Card into Woori Bank in March 2004. Woori Bank provides a variety of credit card-related services and card loans. This segment does not include the significantly smaller credit card operations of Kyongnam Bank and Kwangju Bank. See Item 4B. Business Overview Credit Cards.

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Income statement data					
Interest and dividend income	(Won) 515	(Won) 560	(Won) 693	8.7%	23.8%
Interest expense	38	48	95	26.3	97.9
Provision for loan losses and credit-related commitments	14	85	79	507.1	(7.1)
Non-interest income	55	21	29	(61.8)	38.1
Non-interest expense including depreciation and amortization	262	225	377	(14.1)	67.6
Net income before tax and minority interest	256	223	171	(12.9)	(23.3)
Income tax expense (1)	70	61	47	(12.9)	(23.0)
Minority interest					
Net income	(Won) 186	(Won) 162	(Won) 124	(12.9)	(23.5)

(1) Portion of Woori Bank s income tax allocated to this segment based on income before tax.

Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment decreased 23.3% from (Won)223 billion in 2006 to (Won)171 billion in 2007. Net income after tax also decreased 23.5% from (Won)162 billion in 2006 to (Won)124 billion in 2007.

Interest and dividend income for this segment increased 23.8% from (Won)560 billion in 2006 to (Won)693 billion in 2007. This increase was attributable primarily to growth in the average volume of outstanding credit card balances due to increases in both the number of new cardholders and purchases made by our cardholders.

Interest expense increased 97.9% from (Won)48 billion in 2006 to (Won)95 billion in 2007 principally due to an increase in our internal funding rate applicable to inter-segment allocation of funds to our credit card segment. This increase was attributable primarily to the general increase in market interest rates in 2007.

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Provision for loan losses and credit-related commitments decreased 7.1% from (Won)85 billion in 2006 to (Won)79 billion in 2007, reflecting the non-recurrence of additional provisioning we were required to undertake in 2006 to meet the Financial Services Commission s new minimum required provisioning levels under Korean GAAP, as well as overall improvement in the asset quality of our credit card loans and credit-related commitments. In 2007, our credit card operations charged off credit card balances amounting to (Won)78 billion, as compared to (Won)80 billion in 2006.

Non-interest income increased 38.1% from (Won)21 billion in 2006 to (Won)29 billion in 2007. This increase resulted principally from increases in annual membership fees reflecting an increase in the number of new cardholders.

Non-interest expense, which includes depreciation and amortization, increased 67.6% from (Won)225 billion in 2006 to (Won)377 billion in 2007. This increase was primarily due to increases in marketing costs and salaries and commissions paid in connection with our credit card operations.

Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment decreased 12.9% from (Won)256 billion in 2005 to (Won)223 billion in 2006. Net income after tax also decreased 12.9% from (Won)186 billion in 2005 to (Won)162 billion in 2006.

Interest and dividend income for this segment increased 8.7% from (Won)515 billion in 2005 to (Won)560 billion in 2006. This increase was attributable primarily to growth in the average volume of outstanding credit card balances due to increased credit purchases by our cardholders.

Interest expense increased 26.3% from (Won)38 billion in 2005 to (Won)48 billion in 2006 principally due to an increase in our internal funding rate applicable to inter-segment allocation of funds to our credit card segment. This increase was attributable primarily to the general increase in market interest rates.

Provision for loan losses and credit-related commitments increased 507.1% from (Won)14 billion in 2005 to (Won)85 billion in 2006, primarily due to the increased minimum provisioning levels applicable to credit card balances classified as normal and precautionary under Korean GAAP as required by the Financial Services Commission. In 2006, our credit card operations charged off credit card balances amounting to (Won)80 billion, as compared to (Won)168 billion in 2005.

Non-interest income decreased 61.8% from (Won)55 billion in 2005 to (Won)21 billion in 2006. This decrease resulted principally from a decrease in gains on sales of our credit card receivables.

Non-interest expense, which includes depreciation and amortization, decreased 14.1% from (Won)262 billion in 2005 to (Won)225 billion in 2006. This decrease was primarily due to a decrease in selling, general and administrative expenses related to this segment.

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Securities Brokerage Services

Our securities brokerage services segment currently consists of the operations of Woori Investment & Securities, which was created when we merged Woori Securities with LGIS in March 2005. Woori Investment & Securities is engaged in securities brokerage, investment banking, securities investment and trading and other capital markets activities. In October and December 2004, we acquired a 27.3% voting interest in LGIS, as a result of which LGIS became a consolidated subsidiary under Korean GAAP effective December 24, 2004.

	Year ended December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
		(in billions of Won)			
Income statement data					
Interest and dividend income	(Won) 210	(Won) 354	(Won) 549	68.6%	55.1%
Interest expense	93	195	342	109.7	75.4
Provision for loan losses and credit-related commitments (reversal of provision) [1]	28	(7)	0	N/M	(100.0)
Non-interest income	1,326	2,414	2,561	82.1	6.1
Non-interest expense including depreciation and amortization	1,176	2,250	2,389	91.3	6.2
Net income before tax and minority interest	239	330	379	38.1	14.8
Income tax expense	72	97	115	34.7	18.6
Minority interest [1]	7			(100.0)	N/M
Net income (loss) [1]	(Won) 160	(Won) 233	(Won) 264	45.6	13.3

(1) N/M = not meaningful.

Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment increased 14.8% from (Won)330 billion in 2006 to (Won)379 billion in 2007. Net income after tax also increased 13.3% from (Won)233 billion in 2006 to (Won)264 billion in 2007.

Interest and dividend income for this segment increased 55.1% from (Won)354 billion in 2006 to (Won)549 billion in 2007, primarily as a result of increases in interest and dividend payments due to continued growth in the average volume of securities held by Woori Investment & Securities, particularly government-related debt securities.

Interest expense increased 75.4% from (Won)195 billion in 2006 to (Won)342 billion in 2007, primarily as a result of interest expenses relating to our increased sales of securities subject to repurchase agreements and increased issuances of notes payable.

Provision for loan losses and credit-related commitments changed from a reversal of provision of (Won)7 billion in 2006 to a provision of less than (Won)1 billion in 2007, primarily as a result of an increase in the average volume of Woori Investment & Securities margin loans.

Non-interest income, which includes commission income from our brokerage operations, increased 6.1% from (Won)2,414 billion in 2006 to (Won)2,561 billion in 2007, primarily as a result of an increase in fees and commissions due to an increase in the volume of brokerage activities.

Non-interest expense, which includes depreciation and amortization, increased 6.2% from (Won)2,250 billion in 2006 to (Won)2,389 billion in 2007, primarily as a result of an increase in fees paid to the Korea Exchange and the Korea Securities Dealers Association reflecting the increased volume of brokerage activities.

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Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment increased 38.1% from (Won)239 billion in 2005 to (Won)330 billion in 2006. Net income after tax also increased 45.6% from (Won)160 billion in 2005 to (Won)233 billion in 2006.

Interest and dividend income for this segment increased 68.6% from (Won)210 billion in 2005 to (Won)354 billion in 2006, primarily as a result of increases in interest and dividend payments due to growth in the average volume of securities held by Woori Investment & Securities, particularly government-related debt securities.

Interest expense increased 109.7% from (Won)93 billion in 2005 to (Won)195 billion in 2006, primarily as a result of interest expenses relating to our increased sales of securities subject to repurchase agreements and increased issuances of notes payable.

Provision for loan losses and credit-related commitments changed from a provision of (Won)28 billion in 2005 to a reversal of provision of (Won)7 billion in 2006, primarily as a result of an improvement in the asset quality of Woori Investment & Securities loan portfolio.

Non-interest income, which includes commission income from our brokerage operations, increased 82.1% from (Won)1,326 billion in 2005 to (Won)2,414 billion in 2006, primarily as a result of increases in trading gains on, and fees and commissions related to, structured securities (including equity-linked securities).

Non-interest expense, which includes depreciation and amortization, increased 91.3% from (Won)1,176 billion in 2005 to (Won)2,250 billion in 2006, primarily as a result of an increase in trading losses on structured securities.

Other Operations

Other operations include the operations of Woori Finance Holdings and all of our subsidiaries that were consolidated under Korean GAAP at December 31, 2007 except Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, including principally Woori Finance Information System, Woori F&I, Woori Credit Suisse Asset Management (which was created as a result of the merger of our subsidiary, Woori Investment Trust Management, into LGITM in March 2005), Woori Financial (in which we acquired a 51.4% interest, on a U.S. GAAP basis, in September 2007), one special purpose company and a number of other smaller subsidiaries, none of which constituted a separate reportable segment.

	Year ended December 31, (in billions of Won)			% Change	
	2005	2006	2007	2005/2006	2006/2007
Income statement data					
Interest and dividend income	(Won) 37	(Won) 55	(Won) 91	48.6%	65.5%
Interest expense	144	122	155	(15.3)	27.0
	(1)	(1)	4		500.0

Provision for loan losses and credit-related commitments (reversal of provision)					
Non-interest income	2,249	2,614	2,641	16.2	1.0
Non-interest expense including depreciation and amortization	342	576	457	68.4	(20.7)
Net income before tax and minority interest	1,801	1,972	2,116	9.5	7.3
Income tax expense	27	18	21	(33.3)	16.7
Minority interest	2	1	1	(50.0)	
Net income	(Won) 1,772	(Won) 1,953	(Won) 2,094	10.2	7.2

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Comparison of 2007 to 2006

Our net income before tax and minority interest expense for this segment increased 7.3% from (Won)1,972 billion in 2006 to (Won)2,116 billion in 2007. Net income after tax also increased 7.2% from (Won)1,953 billion in 2006 to (Won)2,094 billion in 2007.

Interest and dividend income increased 65.5% from (Won)55 billion in 2006 to (Won)91 billion in 2007. This increase was primarily due to interest and dividend income payments received by Woori Financial that were allocated to this segment following our acquisition of Woori Financial in September 2007.

Interest expense increased 27.0% from (Won)122 billion in 2006 to (Won)155 billion in 2007. This increase was primarily due to interest expenses of Woori Financial that were allocated to this segment following our acquisition of Woori Financial.

Provision for loan losses and credit-related commitments increased from a reversal of provision of (Won)1 billion in 2006 to a provision of (Won)4 billion in 2007. This increase was primarily as a result of additional provisioning relating to the loan portfolio of Woori Financial following our acquisition of such company.

Non-interest income increased slightly from (Won)2,614 billion in 2006 to (Won)2,641 billion in 2007. This increase was attributable primarily to gains recorded by Woori Finance Holdings in 2007 on valuation of investments in affiliates accounted for under the equity method, principally Woori Bank, due to increases in net income recorded by our subsidiaries.

Non-interest expense, including depreciation and amortization, decreased 20.7% from (Won)576 billion in 2006 to (Won)457 billion in 2007 primarily due to a decrease in administrative expenses.

Comparison of 2006 to 2005

Our net income before tax and minority interest expense for this segment increased 9.5% from (Won)1,801 billion in 2005 to (Won)1,972 billion in 2006. Net income after tax also increased 10.2% from (Won)1,772 billion in 2005 to (Won)1,953 billion in 2006.

Interest and dividend income increased 48.6% from (Won)37 billion in 2005 to (Won)55 billion in 2006. This increase was primarily due to interest and dividend income from Woori Bank s investments in a private fund operated by Woori Credit Suisse Asset Management that was allocated to this segment in 2006 due to a change in accounting treatment under Korean GAAP.

Interest expense decreased 15.3% from (Won)144 billion in 2005 to (Won)122 billion in 2006. This decrease was primarily due to a decline in interest payments in connection with debt issued by us at the holding company level as a result of a decrease in the average volume of such debt.

Reversal of provision for loan losses remained stable at (Won)1 billion in 2005 and 2006.

Non-interest income increased 16.2% from (Won)2,249 billion in 2005 to (Won)2,614 billion in 2006. This increase was attributable primarily to gains recorded by Woori Finance Holdings in 2006 on valuation of investments in affiliates accounted for under the equity method, principally Woori Bank, due to increases in net income recorded by our subsidiaries.

Non-interest expense, including depreciation and amortization, increased 68.4% from (Won)342 billion in 2005 to (Won)576 billion in 2006 primarily due to an increase in administrative expenses.

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Item 5B. ***Liquidity and Capital Resources***

Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
	(in billions of Won)				
Cash and cash equivalents	(Won) 8,280	(Won) 7,935	(Won) 11,553	(4.2)%	45.6%
Restricted cash	376	243	131	(35.4)	(46.1)
Interest-bearing deposits in other banks	1,553	1,582	2,128	1.9	34.5
Call loans and securities purchased under resale agreements	1,426	940	1,695	(34.1)	80.3
Trading securities	4,889	7,576	12,173	55.0	60.7
Available-for-sale securities	18,288	28,174	27,235	54.1	(3.3)
Held-to-maturity securities	9,638	8,614	8,216	(10.6)	(4.6)
Other investment assets	1,397	1,568	2,051	12.2	30.8
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	47,232	58,766	76,050	24.2	29.6
Lease financing	75	35	272	(53.3)	680.0
Trade financing	7,172	8,027	8,754	11.9	9.1
Other commercial (1)	4,727	5,263	6,496	11.3	23.4
Total commercial	59,206	72,091	91,572	21.6	27.2
Consumer:					
General purpose household (2)	34,906	51,637	56,176	47.9	8.8
Mortgage	5,458	4,068	3,248	(25.5)	(20.2)
Credit cards	2,092	2,405	3,325	15.0	38.2
Total consumer	42,456	58,110	62,749	36.9	8.0
Total domestic	101,662	130,201	154,321	28.0	18.6
Foreign:					
Commercial:					
Commercial and industrial	2,316	3,341	5,327	51.6	51.7
Trade financing	76	112	138	47.4	23.2
Total commercial	2,392	3,453	5,465	51.5	50.8
Consumer:	76	86	99	(98.7)	9,800.0
Total foreign	2,468	3,539	5,564	46.8	53.5
Deferred origination costs	31	48	(3)	54.8	(106.3)
Less: unearned income	(7)	(5)	(17)	(28.6)	240.0
Less: allowance for loan losses	(1,525)	(1,855)	(1,735)	21.6	(6.5)

Total loans, net	102,630	131,928	158,130	28.5	19.9
Due from customers on acceptances	355	267	249	(24.8)	(6.7)
Premises and equipment, net	2,060	2,149	2,399	4.3	11.6
Accrued interest and dividends receivable	703	865	950	23.0	9.8
Assets held for sale	49	81	132	65.3	63.0
Goodwill	48	38	232	(20.8)	510.5
Other assets	3,223	3,121	3,601	(3.2)	15.4
Total assets	(Won) 154,915	(Won) 195,081	(Won) 230,875	25.9	18.3

(1) Other commercial loans include bills bought in foreign currency and overdrafts.
(2) Includes home equity loans.

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For further information on our assets, see Item 4B. Business Overview Assets and Liabilities.

Comparison of 2007 to 2006

Our total assets increased 18.3% from (Won)195,081 billion as of December 31, 2006 to (Won)230,875 billion as of December 31, 2007 principally due to an 18.5% increase in domestic commercial loans and consumer credits from (Won)130,201 billion as of December 31, 2006 to (Won)154,321 billion as of December 31, 2007 and a 60.7% increase in trading securities from (Won)7,576 billion as of December 31, 2006 to (Won)12,173 billion as of December 31, 2007. The increase in domestic commercial loans and consumer credits was largely due to a 29.4% increase in domestic commercial and industrial loans, from (Won)58,766 billion as of December 31, 2006 to (Won)76,050 billion as of December 31, 2007 and an 8.8% increase in general purpose household loans, including home equity loans, from (Won)51,637 billion as of December 31, 2006 to (Won)56,176 billion as of December 31, 2007.

Comparison of 2006 to 2005

Our total assets increased 25.9% from (Won)154,915 billion as of December 31, 2005 to (Won)195,081 billion as of December 31, 2006 principally due to a 28.1% increase in domestic commercial loans and consumer credits from (Won)101,662 billion as of December 31, 2005 to (Won)130,201 billion as of December 31, 2006 and a 54.1% increase in available-for-sale securities from (Won)18,288 billion as of December 31, 2005 to (Won)28,174 billion as of December 31, 2006. The increase in domestic commercial loans and consumer credits was largely due to a 47.9% increase in general purpose household loans, including home equity loans, from (Won)34,906 billion as of December 31, 2005 to (Won)51,637 billion as of December 31, 2006 and a 24.4% increase in commercial and industrial loans from (Won)47,232 billion as of December 31, 2005 to (Won)58,766 billion as of December 31, 2006, partially offset by a 25.5% decrease in mortgage loans, from (Won)5,458 billion as of December 31, 2005 to (Won)4,068 billion as of December 31, 2006.

Liabilities and Stockholders Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities, as well as our stockholders equity:

	As of December 31,			% Change	
	2005	2006	2007	2005/2006	2006/2007
	(in billions of Won)				
Deposits					
Interest-bearing	(Won) 99,609	(Won) 121,688	(Won) 140,359	22.2%	15.3%
Non-interest-bearing	4,538	4,851	4,668	6.9	(3.8)
Call money	326	2,270	3,008	596.3	32.5
Trading liabilities	1,339	1,701	2,981	27.0	75.2
Acceptances outstanding	355	267	249	(24.8)	(6.7)
Other borrowed funds	9,909	12,025	13,932	21.4	15.9
Secured borrowings	2,557	2,629	3,486	2.8	32.6
Long-term debt	21,850	32,298	41,336	47.8	28.0
Accrued interest payable	1,721	2,340	2,892	36.0	23.6
Other liabilities	4,379	4,531	5,494	3.5	21.3

Total liabilities	146,583	184,600	218,405	25.9	18.3
Minority interest	11	55	356	400.0	547.3
Stockholders equity	8,321	10,426	12,114	25.3	16.2
Total liabilities, minority interest and stockholders equity	(Won) 154,915	(Won) 195,081	(Won) 230,875	25.9	18.3

For further information on our liabilities, see Item 4B. Business Overview Assets and Liabilities.

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Comparison of 2007 to 2006

Our total liabilities increased 18.3% from (Won)184,600 billion as of December 31, 2006 to (Won)218,405 billion as of December 31, 2007. The increase was primarily due to increases in interest-bearing deposits and long-term debt. Our interest-bearing deposits increased 15.3% from (Won)121,688 billion as of December 31, 2006 to (Won)140,359 billion as of December 31, 2007, primarily due to increases in other time deposits and certificate of deposit accounts. Our long-term debt increased 28.0% from (Won)32,298 billion as of December 31, 2006 to (Won)41,336 billion as of December 31, 2007, primarily due to increases in debentures.

Our stockholders equity increased by 16.2% from (Won)10,426 billion as of December 31, 2006 to (Won)12,114 billion as of December 31, 2007. This increase resulted principally from an increase in our retained earnings, which was attributable to the net income we generated in 2007.

Comparison of 2006 to 2005

Our total liabilities increased 25.9% from (Won)146,583 billion as of December 31, 2005 to (Won)184,600 billion as of December 31, 2006. The increase was primarily due to increases in interest-bearing deposits and long-term debt. Our interest-bearing deposits increased 22.2% from (Won)99,609 billion as of December 31, 2005 to (Won)121,688 billion as of December 31, 2006, primarily due to increases in other time deposits and certificate of deposit accounts. Our long-term debt increased 47.8% from (Won)21,850 billion as of December 31, 2005 to (Won)32,298 billion as of December 31, 2006, primarily due to increases in debentures.

Our stockholders equity increased by 25.3% from (Won)8,321 billion as of December 31, 2005 to (Won)10,426 billion as of December 31, 2006. This increase resulted principally from a substantial reduction in our accumulated deficit, which was attributable to the net income we generated in 2006.

Realized and Unrealized Losses on Investment Securities

Gross Realized Losses

In 2007, we recognized other-than-temporary impairment losses on equity securities and debt securities of (Won)37 billion and (Won)621 billion, respectively. Most of these losses resulted primarily from impairment losses of (Won)417 billion that we recognized in 2007 with respect to Woori Bank s holdings of U.S. sub-prime mortgage-related collateralized debt obligations as a result of adverse developments in the U.S. sub-prime mortgage market and the subsequent difficult conditions and volatility in the United States and worldwide credit markets. See Item 3D. Risk Factors Other risks relating to our business Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance. In 2007, we also recognized impairment losses of (Won)89 billion with respect to Woori Bank s holdings of non-mortgage collateralized debt obligations, including trust preferred securities and collateralized loan obligations. Additional other-than-temporary impairment losses also resulted from an increase in the benchmark interest rate with respect to debt securities in 2007 compared to 2006.

We periodically review our fixed maturity securities and equity securities to determine if any decline in fair value below the carrying value is other-than-temporary on a case-by-case basis. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in accumulated other comprehensive income, net of tax pursuant to the guidance of FASB Statement 115, *Accounting for Certain Investments in Debt and Equity Securities*. Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of the related loss in earnings.

In performing reviews, we consider the relevant facts and circumstances relating to each investment and exercise our judgment in determining whether a security is other-than-temporarily impaired. For a discussion of the factors we consider in making that determination, see Item 5A. Operating Results Critical Accounting Estimates Valuation of Securities and Financial Instruments. The risks inherent in reviewing the impairment of any investment include the risks that (1) market results may differ from expectations, (2) facts and circumstances may change in the future and differ from our estimates and assumptions or (3) we may later decide to sell the security as a result of changed circumstances.

To the extent factors contributing to the impairment losses recognized in 2007 affected other investments, we reviewed those investments for other-than-temporary impairment and recorded losses if appropriate.

There are inherent uncertainties in assessing the fair values we assign to our investments and in determining whether a decline in market value is deemed other-than-temporary. The accounting estimates relating the fair market value of our various securities may be highly susceptible to change from period to period based on factors beyond our control, including market liquidity, the widening of bid/ask spreads or changes in cash flow assertions. Any significant differences between our estimated fair values of our securities on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of those securities could result in valuation losses or losses on disposals. See Item 5A. Operating Results Critical Accounting Estimates Valuation of Securities and Financial Instruments.

With respect to securities we sold at a loss in 2007, the amount of the loss recorded at the sales date was less than (Won)1 billion. These losses related primarily to the disposal of fixed maturity securities of issuers whose deteriorating credit fundamentals, coupled with the continued weakness in general economic conditions in Korea, led to rating downgrades of their securities and increasing uncertainty regarding the future value of their securities.

Securities are classified as available-for-sale when we intend to hold them for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. We currently intend to hold available-for-sale securities with unrealized losses not considered other-than-temporary until they mature, or recover in value. However, if the specific facts and circumstances surrounding a security or the outlook for its industry sector change, we may sell the security and realize a loss.

Gross Unrealized Losses

As of December 31, 2007, the amount of gross unrealized losses on available-for-sale securities included in accumulated other comprehensive income in stockholders equity was (Won)214 billion. As of that date, we had no gross unrealized losses on held-to-maturity securities. For a breakdown of these gross unrealized losses by type of security, see Item 4B. Business Overview Capital Markets Activities Securities Investment and Trading.

Substantially all of the fixed maturity securities in our portfolio are rated by external Korean or international rating agencies. Fixed maturity securities are considered investment grade if they are rated BBB-/Baa3 or better. For fixed maturity securities in an unrealized loss position at December 31, 2007, 31.7% (based on fair value) were investment grade, none were below investment grade and 68.4% were not rated. At December 31, 2007, unrealized losses from fixed maturity securities that were below investment grade or not rated represented approximately 48.1% of gross unrealized losses on such securities. We had no material unrealized losses on individual fixed maturity securities or equity securities at December 31, 2007.

As of December 31, 2007, the amount of gross unrealized losses for fixed maturity securities and equity securities (including beneficiary certificates) continuously in an unrealized loss position for the time periods indicated were as follows:

	Fixed Maturities	Equity Securities (in billions of Won)	Total
Less than one year	(Won) 233	(Won) 18	(Won) 251
More than one year	64		64
Total gross unrealized losses	(Won) 297	(Won) 18	(Won) 315

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Liquidity

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Deposits amounted to (Won)104,147 billion as of December 31, 2005, (Won)126,539 billion as of December 31, 2006 and (Won)145,027 billion as of December 31, 2007, which represented approximately 75.0%, 72.0% and 70.1% of our total funding, respectively. We have been able to use increases in customer deposits in recent years to finance our operations generally, including meeting a portion of our liquidity requirements. Although the majority of deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, thus providing us with a stable source of funding.

We also obtain funding through long-term debt, secured borrowings and other borrowed funds to meet our liquidity needs. Long-term debt represented 15.7%, 18.4% and 20.0% of our total funding as of December 31, 2005, 2006 and 2007, respectively. Secured borrowings represented 1.8%, 1.5% and 1.7%, of our total funding as of December 31, 2005, 2006 and 2007, respectively. Other borrowed funds, which are borrowings with original maturities of less than one year, represented 7.1%, 6.8% and 6.7% of our total funding as of December 31, 2005, 2006 and 2007, respectively. For further information on our sources of funding, see Item 4B. Business Overview Assets and Liabilities Funding.

Our liquidity risks arise from withdrawals of deposits and maturities of our borrowings, as well as our need to fund our lending, trading and investment activities and to manage our trading positions. Our goal in managing our liquidity is to be able, even under adverse conditions, to meet all of our liability repayments on time and to fund all investment opportunities. For a discussion of how we manage our liquidity risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management.

The Financial Services Commission requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require each of our banking subsidiaries to keep its ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

We are a financial holding company, and substantially all of our operations are in our subsidiaries. Accordingly, we rely on distributions from our subsidiaries, direct borrowings and issuances of debt and equity securities to fund our liquidity obligations. We received aggregate dividends from our subsidiaries of (Won)78 billion for 2005, (Won)830 billion for 2006 and (Won)617 billion for 2007. See Item 3D. Risk Factors Risks relating to our financial holding company structure and strategy.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table sets forth our contractual obligations as of December 31, 2007:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in billions of Won)		
Contractual obligations					
Long-term debt obligations	(Won) 41,312	(Won) 10,952	(Won) 18,598	(Won) 5,729	(Won) 6,033
Deposits [(1)]	99,965	93,605	4,484	241	1,635

Capital (finance) lease obligations	54	20	29	5	
Operating lease obligations	293	104	102	65	22
Purchase obligations	284	114	72	66	32
Secured borrowings	3,488	3,144	340	4	
Employee severance plan obligations	304		3	18	283
Total	(Won) 145,700	(Won) 107,939	(Won) 23,628	(Won) 6,128	(Won) 8,005

(1) Comprising certificate of deposits, other time deposits and mutual installment deposits.

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We enter into credit-related financial instruments with off-balance sheet risk in our normal course of business. The primary purpose of those instruments is to generate fee income for us, in return for making credit support and funds available to our customers as required. Such instruments consist primarily of guarantees, commercial letters of credit and unused lines of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. Contingent liabilities for which guaranteed amounts are not finalized appear as off-balance sheet items in the notes to the financial statements. Such contingent liabilities include, among others, contingent liabilities relating to trade financings and derivatives contracts with respect to foreign exchange rates and interest rates.

We also enter into transactions with certain special purpose entities and variable interest entities, including through the purchase of their subordinated debt and the provision of credit facilities to them.

The following table sets forth our off-balance sheet commitments as of the dates indicated:

	As of December 31,		
	2005	2006	2007
	(in billions of Won)		
Guarantees	(Won) 1,793	(Won) 4,011	(Won) 9,631
Commercial letters of credit	2,666	3,153	4,287
Credit derivatives	61	246	615
Unused lines of credit:			
Commercial	40,082	50,550	44,664
Credit cards [(1)]	14,223	15,733	18,377
Consumer	4,925	6,029	6,354
Commitments to extend credit:			
Original term to maturity of less than one year			
Original term to maturity of more than one year	1,749	4,278	4,402
Retained interests in special purpose entities	182	136	142
Credit facilities to special purpose entities [(2)]	2,298	4,215	5,498
Investments in special purpose entities [(2)]	1,559	3,470	4,190
Investments in variable interest entities	384	297	984

(1) Relates to the unused credit card limits that may be cancelled by us at any time.
(2) Structured by third parties.

We analyze our off-balance sheet legally binding credit-related commitments for possible losses associated with such commitments. We review the ability of the counterparties of the underlying credit-related commitments to perform their obligations under the commitments and, if we determine that a loss is probable and estimable, we establish allowances for possible losses in a manner similar to allowances that we would establish with respect to a loan granted under the terms of the applicable commitment. These allowances are reflected as other liabilities in our balance sheet. As of December 31, 2007, we had established allowances for possible losses of (Won)156 billion with respect to our credit-related commitments.

Capital Adequacy

Our subsidiaries Woori Bank, Kyongnam Bank and Kwangju Bank are subject to the capital adequacy requirements of the Financial Services Commission. The requirements applicable prior to 2008 were formulated based on, and were consistent in all material respects with, the capital adequacy accord reached by the Basel Committee of Banking Supervision, Bank for International Settlements in 1988. The requirements applicable commencing in 2008 were formulated based on, and are consistent in all material respects with, the International Convergence of Capital Measurement and Capital Standards, a Revised Framework, also known as Basel II, first published by the Basel Committee of Banking Supervision, Bank for International Settlements in 2004. These subsidiaries are required to maintain a minimum ratio of total capital (Tier I and Tier II capital, less

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any capital deductions) to risk-weighted assets, as determined by a specified formula, of 8.0%. The computation is based on their consolidated financial statements prepared in accordance with Korean GAAP. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy and Allowances.

Tier I capital is core capital, which consists of paid-in capital, capital surplus, retained earnings, minority interests in consolidated subsidiaries and unpaid share dividends minus deductions. Tier II capital is supplemental capital, which includes allowances for certain loan losses up to 1.25% of total risk-weighted assets, subordinated debts with an initial maturity of at least five years and revaluation surplus. Risk-weighted assets consist of on-balance sheet risk-weighted assets and off-balance sheet risk-weighted assets multiplied by the applicable credit translation rate provided by the Financial Services Commission s guidelines.

The following tables set forth a summary of the capital and capital adequacy ratios of Woori Bank, our principal banking subsidiary, and the capital adequacy ratios of Kyongnam Bank and Kwangju Bank, as of December 31, 2005, 2006 and 2007 based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31, (in billions of Won)		
	2005	**2006**	**2007**
Woori Bank			
Tier I capital			
Paid-in capital	(Won) 3,180	(Won) 3,180	(Won) 3,180
Capital reserves	465	466	465
Retained earnings	3,979	5,196	6,775
Minority interests in consolidated subsidiaries	3	3	4
Consolidated adjustment credit/debit			
Others	(374)	(228)	647
Total Tier I capital	7,253	8,617	11,071
Tier II capital			
Revaluation reserves			
Allowance for loan losses [(1)]	943	1,511	1,774
Subordinated debt [(2)]	1,660	3,040	3,067
Valuation gain on investment securities	675	904	752
Others			
Investment in non-consolidated equity investees [(3)]	(83)	(59)	(69)
Total Tier II capital	3,195	5,396	5,524
Total core and supplementary capital	(Won) 10,448	(Won) 14,013	(Won) 16,595
Risk-weighted assets			
On-balance sheet	(Won) 86,224	(Won) 113,484	(Won) 132,480
Off-balance sheet	3,485	7,360	9,316
Total	(Won) 89,709	(Won) 120,844	(Won) 141,796
Tier I capital ratio	8.09%	7.13%	7.81%
Tier II capital ratio	3.56	4.47	3.90
Capital adequacy ratio	11.65	11.60	11.70

(1) Allowances for loan losses in respect of credits classified as normal or precautionary are used to calculate Tier II capital only to the extent such allowances represent up to 1.25% of risk-weighted assets.

(2) Subordinated debt representing up to 50% of Tier I capital is used in the calculation of Tier II capital.

(3) Equity method investees engaged in banking and financial activities of which Woori Bank owns more than 15% are deducted from Tier II capital pursuant to the guidelines of the Financial Services Commission.

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As of December 31, 2005

	Kyongnam Bank	Kwangju Bank
Tier I capital ratio	7.83%	7.34%
Tier II capital ratio	2.81	4.26
Capital adequacy ratio	10.59	11.60

As of December 31, 2006

	Kyongnam Bank	Kwangju Bank
Tier I capital ratio	7.49%	7.04%
Tier II capital ratio	3.81	4.40
Capital adequacy ratio	11.26	11.44

As of December 31, 2007

	Kyongnam Bank	Kwangju Bank
Tier I capital ratio	7.35%	6.64%
Tier II capital ratio	3.49	3.85
Capital adequacy ratio	10.80	10.49

Beginning on January 1, 2008, the Financial Supervisory Service implemented Basel II in Korea. Basel II, which builds upon the initial Basel Capital Accord of 1988, focuses its attention on risk assessment and credit risk in particular. Basel II institutes new measures that require our commercial banking subsidiaries to:

- take into account individual borrower credit when calculating their risk-weighted assets, unlike in the past; and

- quantify their operational risk to include explicit capital requirements in their financial statements.

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 is currently using a standardized approach but 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 and is expected to be implemented in 2009. Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. While we believe that Woori Bank s implementation of an internal ratings-based approach for the first time in 2009 will not lead to a significant increase in its capital requirements, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank s credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital.

Beginning on January 1, 2007, under the new capital adequacy requirements of the Financial Services Commission applicable from such date, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8.0%. Consolidated capital adequacy ratio is defined as the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, determined in accordance with Financial Services Commission requirements that have been formulated based on Bank of International Settlements standards. Equity capital, as applicable to bank holding companies, is defined as the sum of Tier I capital, Tier II capital and Tier III capital less any deductible items, each as defined under the Regulation on the Supervision of Financial Holding Companies). Risk-weighted assets is defined as the sum of credit risk-weighted assets and market risk-weighted assets.

The following table sets forth a summary of our consolidated capital adequacy ratio as of December 31, 2007, based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31, 2007 (in billions of Won)	
Risk-weighted assets	(Won)	174,368
Equity capital		20,103
Consolidated capital adequacy ratio		11.53%

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Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements, which enhances existing guidance for measuring assets and liabilities using fair value. Prior to the issuance of SFAS No. 157, guidance for applying fair value was incorporated in several accounting pronouncements. SFAS No. 157 provides a single definition of fair value, together with a framework for measuring it, and requires additional disclosure on the use of fair value to measure assets and liabilities. SFAS No. 157 also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under SFAS No. 157, fair value measurements are disclosed by level within that hierarchy. SFAS No. 157 is effective for our fiscal year beginning January 1, 2008, and requires that the cumulative effect of the adoption of SFAS No. 157 be reflected as an adjustment to the beginning balance of retained earnings in the year of adoption. Our management is currently evaluating the impact of the adoption of SFAS No.157 on our consolidated financial condition, results of operations and cash flows.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits an entity to measure certain financial assets and financial liabilities at fair value. The objective of SFAS No. 159 is to improve financial reporting by allowing companies to mitigate volatility in reported earnings caused by the measurement of related assets and liabilities using different attributes, without having to apply complex hedge accounting provisions. Under SFAS No. 159, companies that elect the fair value option will report unrealized gains and losses in earnings at each subsequent reporting date. The fair value option may be elected on an instrument-by-instrument basis, with a few exceptions, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 also establishes presentation and disclosure requirements to help financial statement users understand the effect of the company s election on its earnings, but does not eliminate disclosure requirements of other accounting standards. SFAS No. 159 is effective for our fiscal year beginning January 1, 2008, and requires that the cumulative effect of the adoption of SFAS No. 159 be reflected as an adjustment to the beginning balance of retained earnings in the year of adoption. Our management is currently evaluating the impact of the adoption of SFAS No. 159 on our consolidated financial condition, results of operations and cash flows.

FASB Staff Position (FSP) FASB Interpretation (FIN) 39-1, Amendment of FASB Interpretation No. 39 Offsetting of Amounts Related to Certain Contracts

In April 2007, the FASB issued FSP FIN 39-1, Amendment of FASB Interpretation No. 39. FSP FIN 39-1 amends certain provisions of FIN 39, Offsetting of Amounts Related to Certain Contracts, and permits companies to offset fair value amounts recognized for cash collateral receivables or payables against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. FSP FIN 39-1 is effective for fiscal years beginning after November 15, 2007, with early application permitted. Our management is currently evaluating the impact and timing of adoption of FSP FIN 39-1, but does not expect that it will have a significant impact on our consolidated financial condition and results of operations.

Emerging Issues Task Force (EITF) Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards

In June 2007, the FASB ratified the EITF consensus on Issue No. 06-11, Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards. Effective January 1, 2008, EITF Issue No. 06-11 requires on a prospective basis that the tax benefit related to dividend equivalents paid on restricted stock and restricted stock units which are expected to vest be recorded as an increase to additional paid-in capital. Our

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management is currently evaluating the impact of adopting EITF Issue No. 06-11 on our consolidated financial condition, results of operations and cash flows.

Statement of Position (SOP) 07-1, Clarification of the Scope of the Audit and Accounting Guide for Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies and FSP FIN 46R-7, Application of FIN 46R to Investment Companies

In July 2007, the American Institute of Certified Public Accountants (the AICPA) issued SOP 07-1, Clarification of the Scope of the Audit and Accounting Guide for Investment Companies and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies, which was expected to be effective for fiscal years beginning on or after December 15, 2007. SOP 07-1 sets forth more stringent criteria for qualifying as an investment company than does the predecessor audit guidance. In addition, SOP 07-1 establishes new criteria for a parent company or equity method investor to retain investment company accounting in their consolidated financial statements. Investment companies record all their investments at fair value with changes in value reflected in earnings. In May 2007, the FASB issued FSP FIN 46R-7, Application of FIN 46R to Investment Companies, which amends FASB Interpretation No. 46 (revised December 2003), Consolidation of Variable Interest Entities (FIN 46R) to make permanent the temporary deferral of the application of FIN 46R to entities within the scope of the revised audit guidance under SOP 07-1. FSP FIN 46R-7 is effective upon adoption of SOP 07-1. In February 2008, the FASB issued FSP SOP 07-1-1, Effective Date of AICPA Statement of Position 07-1, which delays indefinitely the effective date of SOP 07-1. The delay is intended to allow the FASB staff time to consider a number of significant issues relating to the implementation of SOP 07-1. As a result, the FASB also determined that early adoption of SOP 07-1 would be prohibited.

Staff Accounting Bulletin (SAB) No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings

In November 2007, the Securities and Exchange Commission issued SAB No. 109, Written Loan Commitments Recorded at Fair Value Through Earnings. SAB No. 109 requires that the expected net future cash flows related to servicing of a loan be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. The adoption of SAB No. 109 is on a prospective basis and effective for our loan commitments measured at fair value through earnings which are issued or modified after January 1, 2008. Our management is currently evaluating the impact and timing of the adoption of SAB No. 109, but does not expect that it will have a significant impact on our consolidated financial condition, results of operations and cash flows.

SFAS No. 141(R), Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations. SFAS 141(R) modifies the accounting for business combinations and requires, with limited exceptions, the acquirer in a business combination to recognize 100% of the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, SFAS No. 141(R) requires the expensing of acquisition-related transaction and restructuring costs, and certain contingent assets and liabilities acquired, as well as contingent consideration, to be recognized at fair value. SFAS No. 141(R) also modifies the accounting for certain acquired income tax assets and liabilities. SFAS No. 141(R) is effective for new acquisitions consummated on or after January 1, 2009 and early adoption is not permitted. Our management is currently evaluating the impact of adopting SFAS No.141(R) on our consolidated financial condition, results of operations and cash flows.

SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 requires all entities to report noncontrolling (i.e., minority) interests in subsidiaries

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as equity in the consolidated financial statements and to account for transactions between an entity and noncontrolling owners as equity transactions if the parent retains its controlling financial interest in the subsidiary. SFAS No. 160 also requires expanded disclosure that distinguishes between the interests of the controlling owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for our financial statements for the year beginning on January 1, 2009 and earlier adoption is not permitted. Our management is currently evaluating the impact of adopting SFAS No.160 on our consolidated financial condition, results of operations and cash flows.

FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions

In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. The objective of FSP FAS 140-3 is to provide implementation guidance on whether the security transfer and contemporaneous repurchase financing involving the transferred financial asset must be evaluated as one linked transaction or two separate de-linked transactions. Current practice records the transfer as a sale and the repurchase agreement as a financing. FSP FAS 140-3 requires the recognition of the transfer and the repurchase agreement as one linked transaction, unless all of the following criteria are met: (1) the initial transfer and the repurchase financing are not contractually contingent on one another; (2) the initial transferor has full recourse upon default, and the repurchase agreement s price is fixed and not at fair value; (3) the financial asset is readily obtainable in the marketplace and the transfer and repurchase financing are executed at market rates; and (4) the maturity of the repurchase financing is before the maturity of the financial asset. The scope of this FSP is limited to transfers and subsequent repurchase financings that are entered into contemporaneously or in contemplation of one another. FSP FAS 140-3 will become effective as of January 1, 2009. Early adoption is prohibited. Our management is currently evaluating the impact of adopting FSP FAS 140-3 on our consolidated financial condition, results of operations and cash flows.

SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS No.161, Disclosures about Derivative Instruments and Hedging Activities. SFAS No. 161 modified the existing disclosure requirements in SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 161 enhances disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No.161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. Also, SFAS No.161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. Our management is currently evaluating the impact of adopting SFAS No.161 on our consolidated financial condition, results of operations and cash flows.

FSP FAS 142-3, Determination of the Useful Life of Intangible Assets

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. FSP FAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. The objective of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No.142 and the period of expected cash flows to measure the fair value of the asset under SFAS No. 141(R), Business Combinations, and other U.S. generally accepted accounting principles. FSP FAS 142-3 is effective on January 1, 2009. Early adoption is prohibited. Our management is currently evaluating the impact of adopting FSP FAS 142-3 on our consolidated financial condition, results of operations and cash flows.

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Selected Financial Information Under Korean GAAP

The selected consolidated financial and other data shown below have been derived from our consolidated financial statements prepared in accordance with Korean GAAP, including financial accounting standards generally accepted for banking institutions issued by the Korean Securities and Futures Commission.

Under Korean GAAP, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of (Won)7 billion. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee s voting shares.

Capital adequacy ratios have been calculated from the consolidated financial statements prepared in accordance with Korean GAAP and using the guidelines issued by the Financial Services Commission.

Consolidated income statement data under Korean GAAP

	As of December 31,			
	2005	2006	2007	2007 [1]
		(in billions of Won, except per share data)		(in millions of US$, except per share data)
Interest and dividend income [2]	(Won) 7,689	(Won) 9,998	(Won) 13,116	US$ 14,016
Interest expense	3,736	5,583	7,920	8,463
Net interest income	3,953	4,415	5,196	5,553
Provision for loan losses	562	824	774	827
Net interest income after provision for loan losses	3,391	3,591	4,422	4,726
Commission income	1,274	1,495	1,775	1,897
Other non-interest income	5,295	7,734	11,746	12,552
Non-interest expense	7,929	10,619	14,907	15,930
Operating income	2,031	2,201	3,036	3,245
Non-operating income	573	944	137	146
Non-operating expense	458	231	129	138
Income before income tax expense	2,146	2,914	3,044	3,253
Income tax expense (benefit)	312	725	834	891
Income before minority interests	1,834	2,189	2,210	2,362
Minority interest in earnings of consolidated subsidiaries	(146)	(160)	(183)	(196)
Net income	(Won) 1,688	(Won) 2,029	(Won) 2,027	US$ 2,166
Per common share data:				
Earnings per share-basic	(Won) 2,099	(Won) 2,518	(Won) 2,515	US$ 2,688

Earnings per share-diluted	2,095	2,518	2,515	2,688
Cash dividends per share	400	600	250	0.267
Stock dividends per share				

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)935.8 to US$1.00, the noon buying rate in effect on December 31, 2007 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Commencing with the year ended December 31, 2005, interest and fees on credit card installment purchases and merchant fees have been reclassified from non-interest income to interest income.

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Consolidated balance sheet data under Korean GAAP

	As of December 31,			
	2005	2006	2007	2007 [1]
	(in billions of Won)			(in millions of US$)
Cash and due from banks	(Won) 11,224	(Won) 10,675	(Won) 14,985	US$ 16,013
Trading securities	7,694	12,870	16,228	17,341
Investment securities	29,999	33,444	32,000	34,195
Loans	108,643	142,972	170,030	181,695
Less: allowance for loan losses and present value discounts	(1,705)	(2,118)	(2,395)	(2,559)
Fixed assets	2,685	2,840	3,054	3,264
Other assets	6,003	11,314	15,718	16,796
Total assets	(Won) 164,543	(Won) 211,997	(Won) 249,620	US$ 266,745
Deposits	(Won) 107,088	(Won) 129,023	(Won) 146,583	US$ 156,639
Borrowings	16,508	23,403	27,168	29,032
Debentures, net of discounts	18,813	27,781	35,432	37,863
Other liabilities	11,029	18,365	25,331	27,069
Total liabilities	153,438	198,572	234,514	250,603
Minority interest in consolidated subsidiaries	1,383	1,487	1,954	2,088
Stockholders equity	9,722	11,938	13,152	14,054
Total liabilities, minority interest and stockholders equity	(Won) 164,543	(Won) 211,997	(Won) 249,620	US$ 266,745

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)935.8 to US$1.00, the noon buying rate in effect on December 31, 2007 as quoted by the Federal Reserve Bank of New York in the United States.

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Ratios under Korean GAAP

	Year ended December 31,		
	2005	2006	2007
		(Percentages)	
Woori Finance Holdings:			
Net income as a percentage of:			
Average total assets	1.12%	1.08%	0.88%
Average stockholders equity	19.67	18.74	16.16
Dividend payout ratio [(1)]	19.10	23.83	10.37
Net interest spread [(2)]	3.65	3.31	3.03
Net interest margin [(3)]	2.96	2.61	2.43
Expense-to-revenue ratio [(4)]	49.71	47.77	44.89
Average stockholders equity as a percentage of average total assets	5.70	5.75	5.44
Woori Bank:			
Net income as a percentage of:			
Average total assets	1.20	1.10	0.97
Average stockholders equity	16.51	15.65	15.06
Dividend payout ratio [(1)]	41.57	25.86	11.27
Net interest spread [(2)]	3.66	3.28	2.99
Net interest margin [(3)]	2.97	2.61	2.45
Expense-to-revenue ratio [(4)]	46.80	45.24	40.80
Average stockholders equity as a percentage of average total assets	7.26	7.04	6.42

(1) The dividend payout ratio represents the ratio of total dividends paid on common stock as a percentage of net income attributable to common stock.

(2) Net interest spread represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(3) Net interest margin represents the ratio of net interest income to average interest-earning assets.

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

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Capital, liquidity and leverage ratios under Korean GAAP

	2005	December 31, 2006 (Percentages)	2007
Capital ratios :			
Consolidated capital adequacy ratio of Woori Finance Holdings [(1)]			11.53%
Total capital adequacy ratio of Woori Bank [(2)]	11.65%	11.60%	11.70
Tier I [(2)]	8.09	7.13	7.81
Tier II [(2)]	3.56	4.47	3.90
Liquidity ratios :			
Won liquidity ratio of Woori Finance Holdings [(3)]	609.85	936.60	269.30
Won liquidity ratio of Woori Bank [(4)]	118.97	113.44	111.63
Foreign currency liquidity ratio of Woori Bank [(5)]	107.21	104.59	104.65
Leverage ratio:			
Ratio of acquisition price to net assets of Woori Finance Holdings [(6)]	61.20	43.01	39.36

(1) Under guidelines of the Financial Services Commission which became applicable in 2007, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio of 8%. This computation is based on our consolidated financial statements prepared in accordance with Korean GAAP. See Financial Condition Capital Adequacy.

(2) Woori Bank accounted for 78.6% of our total assets as of December 31, 2007. The capital adequacy ratio of Woori Bank is computed in accordance with the guidelines issued by the Financial Services Commission. Under the guidelines of the Financial Services Commission, Woori Bank is required to maintain a minimum capital adequacy ratio of 8%. This computation is based on Woori Bank s consolidated financial statements prepared in accordance with Korean GAAP. See Financial Condition Capital Adequacy.

(3) Defined as the ratio of Won currency assets due within three months, including marketable securities, to Won liabilities due within three months. This ratio should not be less than 100% on a non-consolidated basis, under the Regulation on Finance Holding Companies.

(4) Defined as the ratio of Won currency assets due within three months, including marketable securities, to Won liabilities due within three months. This ratio should not be less than 100% on a non-consolidated basis, under the Regulation on Supervision of Banking Business.

(5) Defined as the ratio of foreign currency assets due within three months, including marketable securities, to foreign currency liabilities due within three months. This ratio should not be less than 85% on a non-consolidated basis, under the Regulation on Supervision of Banking Business.

(6) Defined as the ratio of the acquisition prices of all subsidiaries in aggregate to the amount of net assets. This ratio should not be more than 100%, under the Financial Holding Company Act.

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Asset quality data under Korean GAAP

	2005	December 31, 2006 (in billions of Won)	2007
Woori Finance Holdings:			
Non-performing loans [(1)]	(Won) 1,575	(Won) 1,587	(Won) 1,244
Allowance for loan losses	1,816	2,245	2,412
Non-performing loans as a percentage of total loans	1.43%	1.08%	0.71%
Non-performing loans as a percentage of total assets	0.96	0.75	0.50
Allowance for loan losses as a percentage of non-performing loans	115.30	141.50	193.93
Allowance for loan losses as a percentage of total loans	1.65	1.53	1.38
Woori Bank:			
Non-performing loans [(1)]	(Won) 1,124	(Won) 1,196	(Won) 920
Non-performing loans as a percentage of total loans	1.23%	0.97%	0.63%
Non-performing loans as a percentage of total assets	0.80	0.63	0.42
Precautionary loans as a percentage of total loans	1.81	0.92	0.74
Precautionary and below loans as a percentage of total loans	3.04	1.89	1.37
Precautionary and below loans as a percentage of total assets	1.97	1.24	0.92
Allowance for loan losses as a percentage of non-performing loans	119.09	148.14	211.38
Allowance for loan losses as a percentage of precautionary and below loans	48.12	75.84	96.75
Allowance for loan losses as a percentage of total loans	1.46	1.43	1.33