

WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 27, 2006
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As filed with the Securities and Exchange Commission on June 27, 2006

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
- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
- OR
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report _____

For the transition period from _____ to _____

Commission file number 001-31811

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant's name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

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Title of each class

Name of each exchange on which registered

American Depositary Shares, each representing three shares of

New York Stock Exchange

Common Stock

Common Stock, par value (Won)5,000 per share

New York Stock Exchange*

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

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

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

806,012,790 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. 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 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. 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):

Large accelerated filer Accelerated Filer Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 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 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, 2001, 2002, 2003, 2004 and 2005 has been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

Under U.S. GAAP, Woori Bank is deemed the predecessor to Woori Finance Holdings for periods prior to March 27, 2001, the date on which the shares of Woori Bank held by the Korea Deposit Insurance Corporation, which we refer to as the KDIC, were transferred to Woori Finance Holdings. The KDIC acquired 100% of the outstanding shares of Kyongnam Bank, Kwangju Bank and Woori Credit Card (formerly Peace Bank of Korea) effective December 29, 2000. The KDIC subsequently transferred these shares to Woori Finance Holdings on March 27, 2001. In November 2000, the KDIC established Woori Investment Bank (formerly Hanaro Merchant Bank) to restructure substantially all of the assets and liabilities of four failed merchant banks that the KDIC had previously acquired, which were transferred to Woori Investment Bank effective November 21, 2000. Accordingly, financial information in this annual report reflects the impact of those acquisitions under the purchase accounting method. Woori Investment Bank and Woori Credit Card were subsequently merged with Woori Bank effective August 1, 2003 and March 31, 2004, respectively.

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 30, 2005, which was (Won)1,010.0 = 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 substance in 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;

cash flow projections;

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;

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foreign exchange rates;

prices and yields of equity and debt securities;

the performance of the financial markets in Korea and globally;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environments in Korea; and

regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

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Unless otherwise indicated, the selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2001, 2002, 2003, 2004 and 2005 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Deloitte Anjin LLC, an independent registered public accounting firm.

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

Table of Contents**Consolidated Income Statement Data**

	Year ended December 31,					
	2001	2002	2003	2004 ⁽¹⁾	2005 ⁽¹⁾	2005 ⁽²⁾
	(in billions of Won except per share data)					(in millions of US\$ except per share data)
Interest and dividend income	(Won) 7,180	(Won) 6,950	(Won) 7,520	(Won) 7,235	(Won) 7,209	US\$ 7,137
Interest expense	4,764	3,991	4,117	3,809	3,727	3,690
Net interest income	2,416	2,959	3,403	3,426	3,482	3,447
Provision for loan losses	1,114	1,247	2,313	652	308	305
Provision for credit-related commitments (reversal of provision) ⁽³⁾	(159)	106	201	43	(39)	(38)
Other provision (reversal of provision) ⁽⁴⁾	173	146	102	(6)	17	16
Non-interest income	1,046	1,784	1,435	1,953	1,916	1,897
Non-interest expense	2,080	2,579	2,636	2,809	2,933	2,904
Income tax expense (benefit)	323	363	254	(392)	366	362
Minority interest	4	6	4	1	7	7
Income (loss) from continuing operations	(73)	296	(672)	2,272	1,806	1,788
Income (loss) from discontinued operations ⁽⁵⁾	(59)	718				
Extraordinary gain				63		
Net income (loss)	(132)	1,014	(672)	2,335	1,806	1,788
Other comprehensive income (loss), net of tax	41	(182)	97	107	106	105
Comprehensive income (loss)	(Won) (91)	(Won) 832	(Won) (575)	(Won) 2,442	(Won) 1,912	US\$ 1,893
Per common share data:						
Net income (loss) per share basic	(Won) (182)	(Won) 1,353	(Won) (871)	(Won) 3,001	(Won) 2,245	US\$ 2.22
Income (loss) per share from continuing operations basic	(100)	395	(871)	2,920	2,245	2.22
Income (loss) per share from discontinued operations basic	(82)	958				
Extraordinary item basic				81		
Weighted average common shares outstanding basic (in thousands)	727,459	749,383	771,724	778,167	804,389	804,389
Net income (loss) per share diluted ⁽⁶⁾	(Won) (182)	(Won) 1,349	(Won) (871)	(Won) 2,926	(Won) 2,241	2.22
Income (loss) per share from continuing operations diluted	(100)	394	(871)	2,848	2,241	2.22
Income (loss) per share from discontinued operations diluted	(82)	955				
Extraordinary item diluted				78		
Weighted average common shares outstanding diluted (in thousands)	730,963	751,785	771,724	799,233	805,866	805,866
Cash dividends paid per share ⁽⁷⁾		(Won) 250	(Won) 100	(Won) 150	(Won) 400	US\$ 0.40

⁽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

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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)1,010.0 to US\$1.00, the noon buying rate in effect on December 30, 2005 as quoted by the Federal Reserve Bank of New York in the United States.
- (3) The reversals of provisions in 2001 and 2005 resulted from subsequent changes in our estimation of losses related to our credit-related commitments. We determined in 2001 and 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 those years.
- (4) Mainly consists of provisions relating to (a) repurchase obligations with respect to loans sold to the Korea Asset Management Corporation and (b) trade receivables. The reversal of provision in 2004 resulted from subsequent changes in our estimation of losses related to loans sold to the Korea Asset Management Corporation.
- (5) Discontinued operations consisted of Hanvit Leasing and its three subsidiaries, which were sold in June and December 2002, and a subsidiary of Woori Investment Bank, which we entered into an agreement to sell in December 2002.

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- (6) In the diluted earnings per share calculation, our convertible bonds and warrants outstanding in 2002 and, in the case of convertible bonds outstanding in 2004 and 2005, are assumed to have been converted into shares of our common stock, while options outstanding to purchase our common stock in 2002, 2003, 2004 and 2005 are not deemed to have been exercised. See Note 32 of the notes to our consolidated financial statements.
- (7) Amounts shown for each year are cash dividends per share relating to such year, which were declared and paid in the following year. U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless those periods are the same. With respect to the 2002 fiscal year, we paid dividends in 2003 of (Won)250 per common share (\$0.21 per common share at the noon buying rate in effect on December 31, 2002) to our stockholders other than the KDIC. With respect to the 2003 fiscal year, we paid dividends in 2004 of (Won)100 per common share (\$0.08 per common share at the noon buying rate in effect on December 31, 2003) to our stockholders, including the KDIC. With respect to the 2004 fiscal year, we paid dividends in 2005 of (Won)150 per common share (\$0.14 per common share at the noon buying rate in effect on December 31, 2004) to our stockholders, including the KDIC. With respect to the 2005 fiscal year, we paid dividends in 2006 of (Won)400 per common share (\$0.40 per common share at the noon buying rate in effect on December 30, 2005) to our stockholders, including the KDIC. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated Balance Sheet Data

	As of December 31,					
	2001	2002	2003	2004	2005	2005 ⁽¹⁾
	(in millions)					
	(in billions of Won)					of US\$)
Assets						
Cash and cash equivalents ⁽²⁾	(Won) 4,575	(Won) 5,149	(Won) 5,399	(Won) 4,315	(Won) 8,280	US\$ 8,198
Restricted cash ⁽²⁾	828	779	373	388	376	372
Interest-earning deposits in other banks	1,687	1,826	1,640	990	1,553	1,537
Call loans and securities purchased under resale agreements	3,573	629	1,127	1,499	1,426	1,412
Trading assets	4,130	3,790	4,291	6,989	4,889	4,841
Available-for-sale securities	8,820	10,846	12,408	12,302	18,288	18,107
Held-to-maturity securities (fair value of (Won)11,799 billion in 2001, (Won)10,448 billion in 2002, (Won)10,143 billion in 2003, (Won)8,763 billion in 2004 and (Won)9,613 billion (\$9,518 million) in 2005)	11,202	9,959	9,801	8,406	9,638	9,542
Other investment assets ⁽³⁾	911	731	793	1,138	1,397	1,384
Loans (net of allowance for loan losses of (Won)4,323 billion in 2001, (Won)3,770 billion in 2002, (Won)2,834 billion in 2003, (Won)1,806 billion in 2004 and (Won)1,525 billion (\$1,510 million) in 2005)	56,817	76,485	85,587	88,705	102,630	101,614
Due from customers on acceptances	569	461	421	338	355	352
Premises and equipment, net	2,195	2,249	2,151	2,110	2,060	2,039
Accrued interest and dividends receivable	694	672	747	558	703	696
Assets held for sale	1,207	240		26	49	48
Goodwill			25	22	48	48
Other assets ⁽⁴⁾	3,475	3,227	2,850	3,128	3,223	3,191
Total assets	(Won) 100,683	(Won) 117,043	(Won) 127,613	(Won) 130,914	(Won) 154,915	US\$ 153,381
Liabilities						
Deposits						
Interest-bearing	(Won) 65,511	(Won) 75,190	(Won) 85,482	(Won) 86,339	(Won) 99,609	US\$ 98,623
Non-interest-bearing	3,582	3,408	3,521	3,714	4,538	4,493
Total deposits	69,093	78,598	89,003	90,053	104,147	103,116

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Call money	503	804	412	689	326	323
Trading liabilities	148	322	473	1,628	1,339	1,326
Acceptances outstanding	569	461	421	338	355	352
Other borrowed funds	7,964	11,326	9,345	9,115	9,909	9,811
Secured borrowings	4,914	4,756	4,321	2,352	2,557	2,531
Long-term debt	8,947	11,305	14,917	15,662	21,850	21,633
Accrued interest payable	1,548	1,528	1,618	1,713	1,721	1,704
Liabilities held for sale	1,584	152				
Other liabilities ⁽⁵⁾	3,074	3,555	3,218	2,862	4,379	4,335
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	98,344	112,807	123,728	124,412	146,583	145,131
Minority interest	31	279	229	38	11	11
Total stockholders equity	2,308	3,957	3,656	6,464	8,321	8,239
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities, minority interest and stockholders equity	(Won) 100,683	(Won) 117,043	(Won) 127,613	(Won) 130,914	(Won) 154,915	US\$ 153,381
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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- (1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,010.0 to US\$1.00, the noon buying rate in effect on December 30, 2005 as quoted by the Federal Reserve Bank of New York in the United States.
- (2) In 2005, we changed our accounting policy with respect to the composition of cash and cash equivalents to include reserve deposits with the Bank of Korea and certain foreign banks. Such balances were previously classified as restricted cash. Amounts for prior periods have been reclassified accordingly. See Item 5B. Liquidity and Capital Resources Financial Condition Assets and Note 1 of the notes to our consolidated financial statements.
- (3) For a description of other investment assets, see Note 10 of the notes to our consolidated financial statements.
- (4) For a description of other assets, see Note 16 of the notes of our consolidated financial statements.
- (5) For a description of other liabilities, see Note 21 of the notes to our consolidated financial statements.

Profitability Ratios and Other Data

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in billions of Won, except percentages)				
Return on average assets ⁽¹⁾	(0.14)%	0.95%	(0.56)%	1.81%	1.28%
Return on average equity ⁽¹⁾⁽²⁾	(61.68)	21.21	(17.17)	50.69	24.45
Net interest spread ⁽³⁾	2.65	2.93	2.88	2.68	2.59
Net interest margin ⁽⁴⁾	2.81	3.07	3.01	2.84	2.73
Cost-to-income ratio ⁽⁵⁾	60.08	54.37	54.49	52.22	54.33
Average stockholders' equity as a percentage of average total assets	0.23	4.47	3.25	3.56	5.25
Total revenue ⁽⁶⁾	(Won) 8,226	(Won) 8,734	(Won) 8,955	(Won) 9,188	(Won) 9,125
Operating expense ⁽⁷⁾	6,844	6,570	6,753	6,618	6,660
Operating margin ⁽⁸⁾	1,382	2,164	2,202	2,570	2,465
Operating margin as a percentage of total revenue	16.80%	24.78%	24.59%	27.97%	27.01%

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

(2) Represents net income (loss) as a percentage of average stockholders' equity.

(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,				
	2001	2002	2003	2004	2005
	(in billions of Won)				
Interest and dividend income	(Won) 7,180	(Won) 6,950	(Won) 7,520	(Won) 7,235	(Won) 7,209
Non-interest income	1,046	1,784	1,435	1,953	1,916

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Total revenue	(Won) 8,226	(Won) 8,734	(Won) 8,955	(Won) 9,188	(Won) 9,125
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⁽⁷⁾ Operating expense represents interest expense plus non-interest expense, excluding provisions of (Won)1,128 billion, (Won)1,499 billion, (Won)2,616 billion, (Won)689 billion and (Won)286 billion for 2001, 2002, 2003, 2004 and 2005, respectively.

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The following table shows how operating expense is calculated:

	Year ended December 31,				
	2001	2002	2003	2004	2005
	(in billions of Won)				
Interest expense	(Won) 4,764	(Won) 3,991	(Won) 4,117	(Won) 3,809	(Won) 3,727
Non-interest expense	2,080	2,579	2,636	2,809	2,933
Operating expense	(Won) 6,844	(Won) 6,570	(Won) 6,753	(Won) 6,618	(Won) 6,660

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

Asset Quality Data

	As of December 31,				
	2001	2002	2003	2004	2005
	(in billions of Won)				
Total loans	(Won) 61,192	(Won) 80,226	(Won) 88,392	(Won) 90,489	(Won) 104,130
Total non-performing loans ⁽¹⁾	6,015	3,576	2,594	2,071	1,369
Other impaired loans not included in non-performing loans	3,435	3,143	1,861	1,129	820
Total non-performing loans and other impaired loans	9,450	6,719	4,455	3,200	2,189
Total allowance for loan losses	4,323	3,770	2,834	1,806	1,525
Non-performing loans as a percentage of total loans	9.83%	4.46%	2.93%	2.29%	1.31%
Non-performing loans as a percentage of total assets	5.97	3.05	2.03	1.58	0.88
Total non-performing loans and other impaired loans as a percentage of total loans	15.44	8.37	5.04	3.54	2.10
Allowance for loan losses as a percentage of total loans	7.07	4.70	3.21	2.00	1.46

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

Table of Contents**Segment Information Under Korean GAAP**

The following table sets forth financial data under Korean GAAP as of or for the year ended December 31, 2005 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)	5,659	(Won)	702	(Won)	589	(Won)	515	(Won)	210	(Won)	37	(Won)	(23)	(Won)	7,689
Interest expense		2,878		324		296		38		93		144		(37)		3,736
Net interest income (loss)		2,781		378		293		477		117		(107)		14		3,953
Provision for loan losses and credit-related commitments (reversal of provision)		391		61		73		14		28		(1)		(19)		547
Non-interest income		5,419		115		85		55		1,326		2,249		(2,122)		7,127
Non-interest expenses		6,304		281		199		262		1,147		247		(301)		8,139
Net non-interest income (loss)		(885)		(166)		(114)		(207)		179		2,002		(1,821)		(1,012)
Depreciation and amortization		112		7		8		0		29		95		(3)		248
Net income (loss) before tax		1,393		144		98		256		239		1,801		(1,785)		2,146
Income tax expense (benefit)		152		11		(27)		70		72		27		8		313
Minority interest		1		0		0		0		7		2		135		145
Net income (loss) for the period under Korean GAAP		1,240		133		125		186		160		1,772		(1,928)		1,688
U.S. GAAP adjustments		50		(8)		(13)		59		(73)		116		(13)		118
	(Won)	1,290	(Won)	125	(Won)	112	(Won)	245	(Won)	87	(Won)	1,888	(Won)	(1,941)	(Won)	1,806

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Consolidated net income								
<hr/>								
Segments total assets under								
Korean GAAP	(Won) 126,557	(Won) 14,099	(Won) 11,697	(Won) 2,906	(Won) 9,196	(Won) 12,643	(Won) (12,555)	(Won) 164,543
U.S. GAAP adjustments	(1,358)	(1)	4	(4)	(8,561)	182	110	(9,628)
<hr/>								
Segments total assets								
	(Won) 125,199	(Won) 14,098	(Won) 11,701	(Won) 2,902	(Won) 635	(Won) 12,825	(Won) (12,445)	(Won) 154,915
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- (1) Includes the operations of Woori Securities and LGIS, in which we acquired a 27.3% voting interest in October and December 2004. As a result of this acquisition, LGIS became a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP) effective December 24, 2004. On March 31, 2005, we merged Woori Securities, a wholly-owned subsidiary, into LGIS and renamed the surviving entity Woori Investment & Securities, which remained a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP).
- (2) Includes eliminations for consolidation, intersegment transactions and certain differences in classification under the management reporting system.

Table of Contents**Selected Financial Information***Average Balance Sheets and Related Interest*

The following tables show our average balances and interest rates for 2003, 2004 and 2005:

	Year ended December 31,											
	2003			2004			2005					
	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)											
Assets												
Interest-earning assets												
Interest-earning deposits in other banks	(Won) 2,161	(Won) 73	3.38%	(Won) 1,208	(Won) 37	3.06%	(Won) 1,527	(Won) 46	2.98%			
Call loans and securities purchased under resale agreements	1,507	45	2.99	1,590	42	2.64	2,003	64	3.20			
Trading securities ⁽⁴⁾	3,950	202	5.11	4,478	163	3.64	4,210	158	3.76			
Investment securities ⁽⁴⁾	20,465	1,378	6.73	23,451	1,319	5.62	24,296	1,214	5.00			
Loans												
Commercial and industrial	39,420	2,466	6.26	43,799	2,738	6.25	45,667	2,719	5.95			
Lease financing	223	12	5.38	158	8	5.30	91	5	5.45			
Trade financing	6,828	321	4.70	7,191	233	3.25	7,331	305	4.16			
Other commercial	4,889	356	7.28	4,623	319	6.90	4,317	299	6.91			
General purpose household ⁽⁵⁾	26,874	1,814	6.75	28,370	1,834	6.47	32,112	1,900	5.92			
Mortgage	3,066	196	6.39	4,086	233	5.70	5,187	276	5.32			
Credit cards ⁽³⁾	3,567	657	18.42	1,559	309	19.82	878	223	25.41			
Total Loans⁽⁶⁾	84,867	5,822	6.86	89,786	5,674	6.32	95,583	5,727	5.99			
Total average interest-earning assets	112,950	7,520	6.66	120,513	7,235	6.00	127,619	7,209	5.65			
Non-interest-earning assets												
Cash and cash equivalents	3,818			4,080			4,031					
Foreign exchange contracts and derivatives	403			565			933					
Premises and equipment	2,171			2,116			2,081					
Due from customers on acceptance	426			379			346					
Allowance for loan losses	(3,209)			(2,477)			(1,557)					
Other non-interest-earning assets ⁽⁷⁾	4,034			4,101			7,349					
Total average non-interest-earning assets	7,643			8,764			13,183					

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Total average assets	(Won) 120,593	(Won) 7,520	6.24	(Won) 129,277	(Won) 7,235	5.60	(Won) 140,802	(Won) 7,209	5.12
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Year ended December 31,

	2003			2004			2005		
	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)									
Liabilities									
Interest-bearing liabilities									
Deposits:									
Demand deposits	(Won) 20,443	(Won) 136	0.67%	(Won) 19,498	(Won) 106	0.54%	(Won) 21,271	(Won) 42	0.20%
Savings deposits	9,178	294	3.20	10,418	289	2.77	9,795	271	2.77
Certificate of deposit accounts	1,716	75	4.37	4,705	194	4.12	6,931	259	3.73
Other time deposits	48,159	2,178	4.52	50,936	1,949	3.83	52,277	1,898	3.63
Mutual installment deposits	959	60	6.26	859	41	4.77	761	31	4.05
Total deposits	80,455	2,743	3.41	86,416	2,579	2.98	91,035	2,501	2.75
Call money	1,077	35	3.25	1,000	30	3.00	934	29	3.08
Borrowings from the Bank of Korea	1,307	33	2.52	1,292	30	2.32	1,258	25	2.00
Other short-term borrowings	8,024	280	3.49	8,328	213	2.56	9,194	269	2.92
Secured borrowings	4,995	259	5.19	2,415	125	5.18	2,839	114	4.03
Long-term debt	13,157	767	5.83	15,301	831	5.43	16,494	789	4.78
Total average interest-bearing liabilities	109,015	4,117	3.78	114,752	3,809	3.32	121,754	3,727	3.06
Non-interest-bearing liabilities									
Demand deposits	2,814			3,533			3,704		
Foreign exchange contracts and derivatives	355			638			2,733		
Acceptances outstanding	426			379			347		
Other non-interest-bearing liabilities	4,069			5,369			4,876		
Total average non-interest-bearing liabilities	7,664			9,919			11,660		
Total average liabilities	116,679	4,117	3.53	124,671	3,809	3.06	133,414	3,727	2.79
Average stockholders equity	3,914			4,606			7,388		
Total average liabilities and stockholders equity	(Won) 120,593	(Won) 4,117	3.41	(Won) 129,277	(Won) 3,809	2.95	(Won) 140,802	(Won) 3,727	2.65

(1) Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori Capital Advisors Asset Management (which was renamed Woori SB Asset Management in February 2006), Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

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

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

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

(5) Includes home equity loans.

(6) Includes non-accrual loans.

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

Table of Contents**Analysis of Changes in Net Interest Income Volume and Rate Analysis**

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2004 compared to 2003 and 2005 compared to 2004. 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.

	2004 vs. 2003 Increase/(decrease) due to changes in			2005 vs. 2004 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) (32)	(Won) (4)	(Won) (36)	(Won) 10	(Won) (1)	(Won) 9
Call loans and securities purchased under resale agreements	3	(6)	(3)	11	11	22
Trading securities	27	(66)	(39)	(10)	5	(5)
Investment securities	200	(259)	(59)	46	(151)	(105)
Loans						
Commercial and industrial	276	(4)	272	116	(135)	(19)
Lease financing	(3)	(1)	(4)	(3)	0	(3)
Trade financing	17	(105)	(88)	5	67	72
Other commercial	(19)	(18)	(37)	(21)	(1)	(20)
General purpose household ⁽¹⁾	101	(81)	20	240	(174)	66
Mortgage	65	(28)	37	63	(20)	43
Credit cards	(370)	22	(348)	(135)	49	(86)
Total interest income	265	(550)	(285)	322	(348)	(26)
Interest-bearing liabilities						
Deposits						
Demand deposits	(5)	(25)	(30)	9	(73)	(64)
Savings deposits	39	(44)	(5)	(18)	0	(18)
Certificate of deposit accounts	131	(12)	119	92	(27)	65
Other time deposits	124	(352)	(228)	53	(104)	(51)
Mutual installment deposits	(6)	(13)	(19)	(5)	(5)	(10)
Call money	(3)	(2)	(5)	(2)	1	(1)
Borrowings from the Bank of Korea		(3)	(3)	(1)	(4)	(5)
Other short-term borrowings	11	(78)	(67)	22	34	56
Secured borrowings	(134)		(134)	22	(33)	(11)
Long-term debt	125	(61)	64	65	(107)	(42)
Total interest expense	282	(590)	(308)	237	(319)	(82)
Net interest income	(Won) (17)	(Won) 40	(Won) 23	(Won) 85	(Won) (29)	(Won) 56

⁽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 30, 2005, which was (Won)1,010.0 to US\$1.00. We do not intend to imply

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that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On June 26, 2006, the noon buying rate was (Won)942.7 = US\$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average ⁽¹⁾	Period-End
2001	(Won) 1,234.0	(Won) 1,369.0	(Won) 1,293.4	(Won) 1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004	1,035.1	1,195.1	1,139.3	1,035.1
2005	997.0	1,059.8	1,023.8	1,010.0
2006 (through June 26, 2006)				
January	958.9	1002.9	981.4	958.9
February	962.0	976.3	969.4	970.9
March	966.8	982.0	974.7	971.4
April	939.6	970.4	952.6	942.8
May	927.4	951.5	940.8	945.3
June (through June 26)	942.7	961.8	954.1	959.2

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)31,560 billion, or 37.3% of our total loans, as of December 31, 2002 to (Won)43,691 billion, or 42.0% of our total loans, as of December 31, 2005. As of December 31, 2005, on a Korean GAAP basis, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were (Won)728 billion, representing 1.8% of such loans to those enterprises. On a Korean GAAP basis, we recorded charge-offs of (Won)212 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2005, compared to charge-offs of (Won)191 billion in 2004. 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 somewhat in 2005. The delinquency ratio for loans to small- and medium-sized enterprise is 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. 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,

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2004, but decreased to 1.9% as of December 31, 2005. Despite this recent decrease, our delinquency ratio may increase in 2006 as a result of, among other things, adverse economic conditions in Korea and, accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we decided to restrict further lending to small- and medium-sized enterprises in certain industry sectors, such as real property leasing companies and hotels and restaurants, commencing in mid-2003 and implemented measures in 2004 to limit the loan approval authority of branch managers based on the credit performance of the small- and medium-sized enterprise loans provided by their branches.

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

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

We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

Of our 20 largest corporate exposures (including loans, debt and equity securities, credit-related commitments and other exposures) as of December 31, 2005, nine were to companies that were members of the 30 largest *chaebols* in Korea. As of that date, the total amount of our exposures to the 30 largest *chaebols* was (Won)13,176 billion, or 9.3% 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, 2005, our 20 largest exposures to corporate borrowers totaled (Won)12,498 billion, which represented 8.9% of our total exposures. As of that date, our single largest corporate exposure was to the KDIC, to which we had outstanding credits in the form of debt securities of (Won)3,070 billion, representing 2.2% of our total exposures. Aside from exposure to the KDIC and other government-related

agencies, our next largest exposure was to Industrial Bank of Korea, to which we had outstanding exposure of (Won)977 billion representing 0.7% of our total exposures. We have made efforts to reduce our outstanding credit exposure to large corporate borrowers, including through asset sales, credit line reductions and credit charge-offs. Any further deterioration

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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, 2005, our credit exposures to companies that were in workout, corporate restructuring, composition or corporate reorganization amounted to (Won)673 billion or 0.6% of our total credit exposures, of which (Won)108 billion or 16.1% 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)110 billion, or 16.4% 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, 2005 to companies in workout, restructuring, corporate reorganization or composition amounted to (Won)1,161 billion, or 0.8% of our total exposures.

Risks relating to our consumer credit portfolio

We have been experiencing, and may continue to 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)15,173 billion as of December 31, 2001 to (Won)40,364 billion as of December 31, 2005. Our credit card portfolio grew from (Won)5,292 billion as of December 31, 2001 to (Won)6,418 billion as of December 31, 2002, but decreased to (Won)2,128 billion as of December 31, 2004 and to (Won)2,092 billion as of December 31, 2005, as a result of increased charge-offs and our efforts to reduce our credit card exposure. As of December 31, 2005, our consumer loans and credit card receivables represented 38.8% and 2.0% of our total lending, respectively.

The rapid growth in our consumer loan and credit card portfolios in prior years has led to increasing delinquencies and a deterioration in asset quality. Our consumer loans classified as substandard or below increased from (Won)137 billion, or 0.9% of our consumer loan portfolio, as of December 31, 2001 to (Won)378 billion, or 1.0% of our consumer loan portfolio, as of December 31, 2005. We charged off consumer loans amounting to (Won)125 billion in 2005, as compared to (Won)140 billion in 2004, and recorded provisions in respect of consumer loans of (Won)166 billion in 2005, as compared to (Won)145 billion in 2004. 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)8,237 billion as of December 31, 2001 to (Won)20,183 billion as of December 31, 2005; however, as a percentage of total outstanding consumer loans, such balance decreased from 54.3% as of December 31, 2001 to 50.0% as of December 31, 2005.

In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)485 billion, or 7.6% of our credit card receivables, as of December 31, 2002 to (Won)938 billion, or 23.7% of our credit card receivables, as of December 31, 2003, but decreased to (Won)136 million and (Won)58 billion, or 6.4% and 2.8% of our credit card receivables, as of December 31, 2004 and 2005, respectively. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We discontinued the practice of providing such substituted cash advances commencing in September 2003. As of December 31, 2005, these restructured loans amounted to (Won)62 billion, or 3.0% 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

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balances overdue by 30 days or more accounted for 5.3% of our credit card balances as of December 31, 2005. We charged off credit card balances amounting to (Won)183 billion in 2005, as compared to

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(Won)1,093 billion in 2004, and recorded a reversal of provisions in respect of credit card balances of (Won)63 billion in 2005, as compared to provisions of (Won)43 billion in 2004. Delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt, as reflected, for example, in the practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

Further 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. Our loan loss provisions in respect of our consumer loan and credit card portfolios, as a percentage of total average consumer loan and credit card balances, decreased from 3.2% in 2002 to 0.3% in 2005, and our charge-offs of non-performing consumer loans and delinquent credit card receivables, as a percentage of total average consumer loan and credit card balances, also decreased from 1.7% in 2002 to 0.8% in 2005.

In addition, our large exposure to consumer debt means that we are exposed to changes in economic conditions affecting Korean consumers. Accordingly, economic difficulties in Korea that hurt those consumers could result in further deterioration in the credit quality of our consumer loan and credit card portfolios. For example, a rise in unemployment or an increase in interest rates in Korea, which have been at historically low levels in recent years, could adversely affect the ability of consumers to make payments and increase the likelihood of potential defaults.

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

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

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

Risks relating to our financial holding company structure and strategy

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

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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

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asset quality and capital adequacy ratios and a net capital deficit, as a result of the Korean financial crisis that began in 1997, and had been recapitalized by the Korean government using public funds injected through the KDIC. Since that time, we have reorganized some of those business operations, and we may decide to implement other transfers or reorganizations with respect to our subsidiaries' business operations in the future. While we believe that we have generally succeeded in improving our overall financial condition and normalizing our operations, we have a limited operating history as a financial holding company, particularly under our current structure and organization, and may experience difficulties in managing a larger and more diverse business. Accordingly, our continued success cannot be assured.

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

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

we may fail to successfully integrate our diverse systems and operations;

we may lack required capital resources;

we may fail to attract, develop and retain personnel with necessary expertise;

we may face competition from other financial holding companies and more specialized financial institutions in particular segments;
and

we may fail to leverage our financial holding company structure to realize operational efficiencies and to cross-sell multiple products and services.

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

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

Our success under a financial holding company structure depends on our ability to implement our reorganization and integration plan and to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our various subsidiaries. As part of this plan, between December 2001 and February 2002 we merged the commercial banking business of Peace Bank of Korea into Woori Bank, converted Peace Bank of Korea into a credit card subsidiary, Woori Credit Card, and transferred the credit card business of Woori Bank to Woori Credit Card. We also transferred the credit card business of Kwangju Bank to Woori Credit Card in March 2003. In light of the deteriorating business performance of Woori Investment Bank and with the objective of restructuring the group platform, we merged Woori Investment Bank with Woori Bank in August 2003. In March 2004, in response to the liquidity problems of Woori Credit Card stemming from the deteriorating asset quality of its credit card portfolio, we merged Woori Credit Card with Woori Bank. Although we

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currently intend for our commercial banking subsidiaries to continue to operate as separate legal entities within our financial holding company structure and to maintain separate loan origination and other functions, we have standardized our subsidiaries' risk management operations (except with respect to credit risk management and operational and business risk management). In October and December 2004, we also acquired a 27.3% voting interest in LGIS, a leading domestic securities firm. In March 2005, we

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

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

difficulties in integrating the diverse activities and operations of our subsidiaries or any companies we may acquire, including risk management operations and information technology systems, personnel, policies and procedures;

difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;

restrictions under the Financial Holding Company Act and other regulations on transactions between our company and, or among, our subsidiaries;

unexpected business disruptions;

loss of customers; and

labor unrest.

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

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

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

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

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required to meet certain minimum financial ratios under Korean law, including with respect to liquidity, leverage and capital adequacy. Our ability to meet our obligations to our direct creditors and employees and our other liquidity needs and regulatory requirements at the holding company level depends on timely and adequate distributions from our subsidiaries and our ability to sell our securities or obtain credit from our lenders.

In the case of dividend distributions, this depends on the financial condition and operating results of our subsidiaries. In the future, our subsidiaries may enter into agreements, such as credit agreements with lenders or indentures relating to high-yield or subordinated debt instruments, that impose restrictions on their ability to make distributions to us, and the terms of future obligations and the operation of Korean law could prevent our subsidiaries from making sufficient distributions to us to allow us to make payments on our outstanding obligations. See

As a holding company, we depend on receiving dividends from our subsidiaries to pay dividends on our common stock. Any delay in receipt of or shortfall in payments to us from our subsidiaries could result in our inability to meet our liquidity needs and regulatory requirements, including minimum liquidity, double leverage and capital adequacy ratios, may disrupt our operations at the holding company level.

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

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

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

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

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

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

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

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

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Risks relating to competition

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

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

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005 and the contemplated acquisition of Korea Exchange Bank by Kookmin Bank in the second half of 2006. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

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

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.

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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 2006. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As a result of rising credit card

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delinquency levels in Korea, Woori Credit Card failed to meet certain financial targets as of June 30, September 30 and 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. We merged Woori Credit Card with Woori Bank 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 also failed to meet three of the financial targets as of June 30, 2004, which were return on total assets, expense to revenue ratio, and operating income per employee. The KDIC notified us that we could not improve fringe benefits for our employees (including salaries), and ordered us to devise and report to the KDIC a plan to meet those three financial targets. We negotiated with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding and, as a result, each of us, Woori Bank, Kyongnam Bank and Kwangju Bank have met all of our financial targets subsequent to such adjustments.

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

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

We have provided certain assets as collateral for our secured borrowings in recent years. These secured borrowings often take the form of asset securitization transactions, where we nominally sell our assets to a securitization vehicle that issues securities backed by those assets, although the assets remain on our balance sheet. These secured borrowings are intended to be fully repaid through recoveries on collateral. Some of these nominal asset sales were with recourse, which means that if delinquencies arise with respect to such assets, we will be required to either repay a proportionate amount of the related secured borrowing (by reversing the nominal sale and repurchasing such assets) or compensate the securitization vehicle for any net shortfalls in its recoveries on such assets. As of December 31, 2005, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)2,915 billion. As of that date, we had established allowances of (Won)13 billion in respect of possible losses on those assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets to the extent those payments or recovery shortfalls exceed our allowances.

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

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates started to rebound in the second half of 2005 and have stabilized in the first quarter of 2006. Approximately 90.0% of the debt securities our banking subsidiaries hold pay interest at a fixed rate. All else being equal, an increase in interest rates would lead to a decline in the value of traded debt securities. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust

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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 our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2005, approximately 87.3% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we believe that the recent increases in these short-term deposits were attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of these short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yielding investment opportunities emerge. In that event, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

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

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

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

As of December 31, 2005, 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)7,498 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, 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

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value that banking subsidiaries could realize in the event we elect to sell these securities. As a result, our banking subsidiaries 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.

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum requisite capital ratio, which is the ratio of net total equity capital as a percentage of requisite capital, of 100% on a consolidated Korean GAAP basis. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the memoranda of understanding among us, our subsidiaries and the KDIC require us and our subsidiaries to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As of December 31, 2005, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Supervisory Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

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

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

In December 2004, the Financial Supervisory Service announced that it would implement the new Basel Capital Accord, referred to as Basel II, in Korea by the end of 2007. The implementation of Basel II will have a substantial effect on the way risk is measured among Korean financial institutions, including our commercial banking subsidiaries. Building upon the initial Basel Capital Accord of 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Basel II also institutes new measures that will require our commercial banking subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements, while Kyongnam Bank and Kwangju Bank have chosen to use

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a standard approach. Since Woori Bank will be implementing an internal ratings-based approach for the first time in connection with its implementation of Basel II, its internal rating model may require a significant increase in its capital requirements, which will require it to either improve its asset quality or raise additional capital. See Item 5A. Operating Results Overview New Basel Capital Accord and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

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

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

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

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

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

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

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

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

Risks relating to government control

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

The Korean government, through the KDIC, currently owns 78.0% 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

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takeover of a troubled financial institution or encourage us to provide financial support to particular entities or sectors. Such actions or others that are not consistent with maximizing our profits or the value of our common stock may have an adverse impact on our results of operations and financial condition and may cause the price of our common stock and ADSs to decline.

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

Risks relating to government regulation and policy

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

In November 2004, the Financial Supervisory Commission announced that it will implement new loan loss provisioning guidelines, which Korean banks will be required to follow from the second half of 2006 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. As a result, we will be required to establish and maintain allowance for loan losses under Korean GAAP based on an evaluation of expected losses on individual credits or credit portfolios.

Under the new guidelines, all Korean banks were required to establish systems to calculate their expected losses based on their historical losses during 2005. The Financial Supervisory Commission also announced that 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 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 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 result in an increase in our provisions for loan losses under Korean GAAP in 2005. However, full compliance with the new guidelines in 2006 may increase our provisions for loan losses under Korean GAAP compared to previously mandated levels. Any such increase 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.

Furthermore, under a recent amendment to the Regulation on the Supervision of the Banking Business, Korean banks must establish allowances in respect of certain unused credit lines as of the date of settlement for such credit lines. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy and Allowances.

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

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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 Financial Supervisory Commission increased the minimum loan loss reserve requirements applicable to consumer loans with effect from May 2002. In addition, in an effort to curtail

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the growth in property speculation caused by increased levels of mortgage and home equity lending, the Financial Supervisory Commission and Financial Supervisory Service adopted measures during 2002 that reduced our ability to provide certain higher-risk mortgage and home equity loans and applied new, more stringent guidelines to mortgage and home equity lending by Korean banks.

Furthermore, in October 2003, the government advised Korean banks to limit their loans to a maximum of 40% of the value of the underlying real estate collateral, in the case of mortgage and home equity lending in areas where the average real estate price had increased substantially. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Recent Regulations Relating to Retail Household Loans. In addition, the Korean government announced the implementation of measures to stabilize the real estate market in October 2003, which included:

building more residential apartments and houses;

enforcing more stringent supervision of property speculation; and

increasing the tax burden of those taxpayers who own real estate in excess of prescribed amounts.

The Korean government has also expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary. For example, in 2005 and 2006, the Korean government has:

raised the residential property tax applicable to residential properties in cases where such property represents the third or more residential property owned by a single individual;

placed a ceiling on the sale price of newly constructed residential properties and, under certain circumstances, required developers to disclose the costs incurred in connection with the construction of such properties;

amended the Urban and Residential Environment Improvement Act to require that at least 25% of any increased floor space resulting from the redevelopment of existing residential properties be devoted to the construction of rental residential properties;

adopted more stringent guidelines that require financial institutions to impose debt-to-income limits on customers, in addition to the current loan-to-value ratio requirements, in connection with mortgage loans for real estate located in areas of wide-spread real property speculation; and

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

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

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

Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in recent years, the Korean government has heightened its regulatory oversight of the credit card industry. From mid-2002 through early 2003, the Ministry of Finance and Economy and the Financial Supervisory Commission adopted a variety of amendments to existing regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in volumes for credit card loans, increased provisioning requirements and minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also implemented a

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number of changes to the rules governing the evaluation and reporting of credit card balances, 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 government has also increased its enforcement activities with respect to the credit card industry in recent years. In March 2002, the Financial Supervisory Commission imposed sanctions, ranging from warnings and administrative fines to partial business suspensions, on substantially all Korean credit card issuers in respect of unlawful or unfair practices discovered in the course of its industry-wide inspection. In April 2002, the Korean Fair Trade Commission imposed administrative fines on four credit card companies for collusive and anti-competitive practices in fixing credit card interest and fee levels in 1998 and 1999. Woori Credit Card was not subject to any such sanctions. In July and August 2003, the Financial Supervisory Commission conducted an inspection of several credit card issuers, including Woori Credit Card, and ordered them to cease the practice of replacing delinquent credit card balances with substituted cash advances.

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March, September and October 2003, the Korean government announced measures intended to support the credit card industry. These included the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card companies, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables. These relief measures, however, were temporary, and the overall effect of the Korean government's recent regulatory initiatives has been to constrain the growth and increase the oversight of the credit card industry. For example, since October 2003, the Financial Supervisory Commission has:

changed its standards for reporting credit card delinquency ratios to require the inclusion of restructured loans (with the exception of restructured loans with substantially improved repayment prospects, which may be excluded) in the calculation of such ratios; and

assigned to each credit card company a target delinquency ratio to meet on a semi-annual basis until the end of 2006 and required each credit card company to enter into a memorandum of understanding with the Financial Supervisory Commission by the end of November 2003 with respect to each credit card company's action plan to meet its assigned target delinquency ratio.

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. For more details regarding these enacted and proposed changes, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

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

Through its policy guidelines and recommendations, the Korean government has promoted and, as a matter of policy, may continue to attempt to promote lending by the Korean financial industry to particular types of borrowers. For example, the Korean government has in the past announced policy guidelines requesting financial institutions to participate in remedial programs for troubled corporate borrowers, as well as policies identifying sectors of the economy it wishes to promote and making low interest funding available to financial institutions that lend to these sectors. The government has in this manner encouraged low-income mortgage lending 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.

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

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

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

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

capital increases or reductions;

stock cancellations or consolidations;

transfers of business;

sales of assets;

closures of branch offices;

mergers with other financial institutions; and

suspensions of a part or all of our business operations.

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

Risks relating to Korea

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. From early 1997 until 1999, Korea experienced a significant financial and economic downturn, from which it is widely believed the country has now recovered to a large extent.

The economic indicators in 2003, 2004 and 2005 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices, the general weakness of the global economy and the possibility of an outbreak of avian flu in Asia and other parts of the world have increased the uncertainty of global economic prospects in general and may continue to adversely affect the Korean economy for some time. Any future deterioration of the Korean or global economy could adversely affect our financial condition and results of operations.

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

financial problems relating to *chaebols* or their suppliers, and their potential adverse impact on the Korean economy, including as a result of recent investigations relating to unlawful political contributions by *chaebols*;

failure or lack of progress in restructuring of *chaebols*, the financial industry, including credit card companies, and other large troubled companies;

increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;

loss of investor confidence arising from corporate accounting irregularities and corporate governance issues at certain *chaebols*;

a slowdown in consumer spending and the overall economy;

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;

deterioration of economic or market conditions in other emerging markets;

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 that could result in a loss of confidence in the Korean economy;

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

social and labor unrest;

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

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

the recurrence of 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 such 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 resulting from those hostilities; and

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

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

Relations between Korea and North Korea have been tense throughout Korea's modern history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea. 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.

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In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multi-lateral talks in an effort to resolve issues relating to North Korea's nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six-party talks resumed in Beijing, China. A third round of talks were held in June 2004 with an agreement to hold further talks in September, which were postponed. In February 2005, North Korea announced that it possesses nuclear weapons and pulled out of six-party disarmament talks. A two-phased fourth round of six-party talks was held in Beijing, China during the summer and fall of 2005. In September 2005, North Korea agreed in principle to end its nuclear weapons program and the six participating nations signed a draft preliminary accord pursuant to which North Korea agreed to dismantle its existing nuclear weapons, abandon efforts to produce new weapons and readmit international inspectors to its nuclear facilities. Representatives of the six nations reconvened in Beijing in November 2005 for the first phase of the fifth-round of six-party talks, which concluded without further progress being made with respect to the implementation of the draft preliminary accord.

In addition, in October 2004, the United States and Korea agreed to a three-phase withdrawal of approximately one-third of the 37,500 troops stationed in Korea by the end of 2008. By the end of 2005, 8,000 U.S. troops departed Korea in the first and second phases of such withdrawal. According to the plan, the United States would remove an additional 2,000 troops by the end of 2006. In the final phase, another 2,500 U.S. troops would be redeployed by the end of 2008.

Any further increase in tensions, which may occur, for example, if high-level contacts breakdown or military hostilities occur, could have a material adverse effect on our operations and the market value of our common stock and ADSs.

Labor unrest in Korea may adversely affect our operations.

Any future economic downturn in Korea or an increase in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% in 2000 to 3.1% in 2002, but increased to 3.4% in 2003 and 3.5% in 2004 and 2005. A continued increase in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

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

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

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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 628,458,609 shares, or 78.0%, 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. Under the Financial Holding Company Act, the KDIC was originally required to dispose of all of its holdings of our common stock by the end of March 2005 but the Korean National Assembly passed a bill to extend the deadline for two years until 2007 and an additional one year extension is possible with the approval of the Public Fund Oversight Committee of the Korean government.

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

Ownership of our common stock is restricted under Korean law.

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

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

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

stockholder prior to the record date of the stockholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

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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.

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,

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fluctuations in the exchange rate between the Won and the U.S. dollar will affect, among other things, the amounts you will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that you would receive upon sale in Korea of the shares of our common stock obtained upon surrender of ADSs and the secondary market price of ADSs. Such fluctuations will also affect the U.S. dollar value of dividends and sales proceeds received by holders of our common stock.

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

Our common stock is listed on the Stock Market Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1,138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point, or 11.6%, drop, which represented the single largest decrease in the history of the KOSPI. On June 26, 2006, the KOSPI closed at 1,238.05. 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.

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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

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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 website address is

<http://www.woorifg.com>.

History

Establishment of Woori Finance Holdings

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

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

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

After that order was issued by the Financial Supervisory Commission, it was ratified by the board of directors of each bank. Immediately following that ratification, each bank published a notice in two newspapers in Korea that informed shareholders who dissented as to the capital reduction that the relevant bank would be required to purchase their shares, so long as they made a request in writing no more than ten business days following the publication date. Each bank purchased the shares owned by dissenting shareholders within two months after receiving those requests, in each case at a price negotiated between the bank and its dissenting shareholders. With respect to each of the four banks, the bank and the dissenting shareholders were unable to agree on a purchase price. Accordingly, an accounting expert determined that price. Although the shareholders of each of Hanvit Bank, Kyongnam Bank and Kwangju Bank subsequently requested, pursuant to Korean law, that a court review and adjust the determined price, the court in each case declined to make any such adjustment.

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

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

Merchant Banking Operations. On November 3, 2000, the KDIC established Hanaro Merchant Bank (which was renamed Woori Investment Bank) to restructure substantially all of the assets and liabilities of four failed

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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 Supervisory Commission before we can acquire control of another company;

must obtain permission from the Financial Supervisory Commission to liquidate or to merge with another company;

must inform the Financial Supervisory Commission if there is any change in our officers, directors or largest shareholder; and

must inform the Financial Supervisory Commission if we cease to control any of our direct or indirect subsidiaries by disposing of shares in those subsidiaries.

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

Relationship with the Korean Government

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

Labor-Government Agreement. Under the December 2000 agreement between our subsidiaries labor unions and the Korean government, we control the management strategies of our subsidiaries and have the ability to

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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

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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 have met its financial targets under the plan. 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 for 2001 and 2002. 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 have met all of our financial targets under the plan. 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

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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 2005 and 2006 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 2005, 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 2005 and 2006 that we are required to meet on a Korean GAAP basis. Our current Korean GAAP targets for each six-month period in 2005 and 2006 are set forth in the following table:

	Six-month period ended			
	2005		2006	
	June	December	June	December
Capital ratio ⁽¹⁾	120%	120%	120%	120%
Return on total assets ⁽²⁾	0.6	0.7	0.6	0.7
Expense-to-revenue ratio ⁽³⁾	51.6	50.1	51.3	49.4
Operating income per employee ((Won) million) ⁽⁴⁾	(Won) 290	(Won) 300	(Won) 300	(Won) 320
Non-performing loan ratio ⁽⁵⁾	2.6%	2.6%	2.6%	2.5%
Holding company expense ratio ⁽⁶⁾	0.8	0.7	0.8	0.7

⁽¹⁾ For a description of how the requisite capital 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 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.

⁽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 Supervisory Commission for each of these measures:

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

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

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

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

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

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

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

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

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

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

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

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

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

In addition, we have implemented a group-wide, standardized risk management system (except with respect to credit risk management and operational and business risk management). We expect to complete this standardization process by the end of 2007.

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

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

In 2002, Woori Bank streamlined its appropriation procedures for goods and services, and we are in the process of implementing these procedures on a group-wide level to reduce costs.

We plan to develop a group-wide, integrated customer relationship management database.

Item 4B. Business Overview

Business

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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) and deposits. 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, 2005, we had consolidated total assets of (Won)154.9 trillion, consolidated total deposits of (Won)104.1 trillion and consolidated stockholders' equity of (Won)8.3 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government's interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Over the past five years, we have succeeded in restructuring our operations by: securing a solid

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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 over 980 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 16 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.

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

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

allowing us to offer a more extensive range of financial products and services;

enabling us to share customer information, which is not permitted outside a financial holding company structure, thereby enhancing our risk management and cross-selling capabilities;

enhancing our ability to reduce costs in areas such as back-office processing and procurement; and

enabling us to raise and manage capital on a centralized basis.

Strong and long standing relationships with corporate customers. Historically the operations of Woori Bank, our largest subsidiary, concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea's leading corporate groups, and we are the main creditor bank to 13 of the 36 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 464,000 as of December 31, 2005.

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 16 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.

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Extensive distribution and marketing network. We serve our customers primarily through the second-largest banking network in Korea, comprising over 980 branches and 7,800 ATMs and cash dispensers. Through Woori Bank, we also operate 13 dedicated corporate marketing centers and over 90 relationship managers for our large corporate customers and over 600 relationship professionals stationed at 535 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, 2005, our consolidated stockholders' equity totaled (Won)8.3 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 11.3%. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

Strong and experienced management team. Our management team comprises both experienced managers from our subsidiaries and their predecessor companies as well as leading experienced financial industry professionals who have recently been recruited from outside our group to complement our team. In April 2004, Young-Key Hwang, the former chief executive officer of Samsung Securities, the largest securities firm in Korea, assumed the roles of chairman and chief executive officer of both Woori Finance Holdings and Woori Bank, which we believe has enhanced coordination among and corporate governance at our holding company and our subsidiaries. We also believe that the extensive experience of many members of our new management team in the non-banking financial sector will help us to continue to strengthen our non-banking operations.

Strategy

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

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. Since 2002, we have entered into joint venture arrangements with several financial institutions to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans decreased from 9.8% at December 31, 2001 to 1.4% as of December 31, 2005.

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. Since the second half of 2004, Kyongnam Bank has been using an upgraded system based on the Woori Bank system. We expect to upgrade Kwangju Bank's system by the end of 2006. 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

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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.

We plan to develop a group-wide, integrated customer relationship management database. We believe our integrated and targeted marketing approach will not only increase our wallet share of our existing customers and allow us to attract new customers, but more importantly, enhance our customer profitability.

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

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

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

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

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

Corporate Banking

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

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

	As of December 31,					
	2003		2004		2005	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
(in billions of Won, except percentages)						
Loans:						
Small- and medium-sized enterprise	(Won) 38,831	43.9%	(Won) 40,198	44.4%	(Won) 43,691	13.1%
Large corporate	11,982	13.6	11,600	12.8	13,632	42.0%
Others ⁽¹⁾	3,148	3.6	3,942	4.4	4,268	4.1%
Total	(Won) 53,960	61.1%	(Won) 55,740	61.6%	(Won) 61,591	59.2%
Deposits:						
Small- and medium-sized enterprise	(Won) 11,186	12.5%	(Won) 10,948	12.1%	(Won) 12,812	12.3%
Large corporate	16,788	18.9	18,408	20.4	24,249	23.2

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Total	(Won) 27,974	31.4%	(Won) 29,357	32.6%	(Won) 37,061	35.5%
Number of borrowers:						
Small- and medium-sized enterprise	157,902		160,391		189,052	
Large corporate	555		784		1,097	

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

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Corporate loans we provide consist principally of the following:

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

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

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

Small- and Medium-Sized Enterprise Banking

Small- and medium-sized enterprises generally comprise those companies and personal businesses that we do not classify as large corporate customers. Under the Small and Medium Industry Basic Act of Korea, the general criteria used to define small- and medium-sized enterprises is the number of full-time employees (less than 300), paid-in capital (not more than (Won)8 billion) or sales revenues (not more than (Won)30 billion), depending on the industry, but in each case the number of full-time employees must be less than 1,000. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As a result of our efforts to target this growing market segment, our loan exposure to small- and medium-sized enterprises has increased from 52.3% of our total corporate loans as of December 31, 2001 to 70.9% as of December 31, 2005. As of December 31, 2005, 33.2% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 16.3% were extended to borrowers in the retail and wholesale industry and 7.9% 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, 2005, Woori Bank had stationed one or more relationship professionals at 535 branches, approximately half of which were located in the Seoul metropolitan area. Of these 535 branches, 31 were designated as small- and medium-sized enterprise support branches and staffed with more senior relationship professionals. 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, 2005, Woori Bank had a total of 616 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.

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Industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises rose from 2002 through 2004, although these delinquency ratios stabilized somewhat in 2005. The delinquency ratio for loans to small- and medium-sized enterprise is 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

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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. 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. On a Korean GAAP basis, we charged off (Won)212 billion of our Won-denominated loans to small- and medium-sized enterprises in 2005. 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, 2005, working capital loans and facilities loans accounted for 80.5% and 13.3%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2005, we had approximately 189,000 small- and medium-sized enterprise borrowers.

As of December 31, 2005, secured loans and loans guaranteed by a third party accounted for 63.4% and 25.3%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2005, approximately 69.9% of the secured loans were secured by real estate and 10.1% 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. 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, 2005, about two-thirds of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

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

of Woori Bank, we remain the main creditor bank to many of Korea's largest corporate borrowers.

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In terms of our outstanding loan balance, as of December 31, 2005, 60.1% of our large corporate loans were extended to borrowers in the manufacturing industry, 10.7% were extended to borrowers in the retail and wholesale industry and 5.5% 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, 2005, Woori Bank had a total of 93 relationship managers who focus on marketing to and managing the accounts of large corporate customers.

Our strategy for the large corporate banking segment is to develop new products and cross-sell our existing products and services to our core base of large corporate customers. In particular, we have been focusing on marketing fee-based products and services such as foreign exchange and trade finance services, derivatives and other risk hedging products, investment banking services and advisory services. We have also been reviewing the credit and risk profiles of our existing customers as well as those of our competitors, with a view to identifying a target group of high-quality customers on whom we can concentrate our marketing efforts. In addition, we are seeking to increase the *chaebol*-, region- and industry-based specialization of our relationship managers, including through the operation of a knowledge management database that will allow 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, 2005, working capital loans and facilities loans accounted for 40.4% and 5.7%, 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, 2005, secured loans and loans guaranteed by a third party accounted for 20.3% and 32.8%, 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, 2005, approximately 71.4% of the secured loans were secured by real estate and approximately 15.3% 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, 2005, about one-third of these loans had interest rates that varied with reference to current market interest rates.

Currently, Kyongnam Bank and Kwangju Bank do not use the automated CREPIA system. Instead, they establish lending rates using a market average floating rate, which is the base rate, with spreads based principally on factors that include non-payment ratios, cost of funding, incidental costs and the borrower's credit rating and profitability.

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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 expect to be able to make use of a group-wide, integrated customer relationship management database to further 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,					
	2003		2004		2005	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentages)					
General purpose household loans	(Won) 12,765	14.4%	(Won) 14,175	15.7%	(Won) 20,183	19.4%
Mortgage and home equity loans	17,592	19.9	18,127	20.0	20,181	19.4

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Total	(Won) 30,357	34.4%	(Won) 32,302	35.7%	(Won) 40,364	38.8%
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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

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

For secured loans, including mortgage and home equity loans, we generally lend up to 50% of the collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate, we generally use the appraisal value of the collateral as determined using our automated CREPIA system. We generally revalue 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).

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

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2005, approximately (Won)12,989 billion, or 64.4% 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, 2005, 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. The applicable interest rate is determined at the time of the loan. We also charge a

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termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2005, approximately 88.8% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is 30 years for each of Woori Bank and Kyongnam Bank and 33 years for Kwangju Bank. Most of our mortgage and home equity loans have an initial maturity of three years or less. With respect to these loans, Woori Bank determines the eligibility of borrowers based on the borrower's personal information, transaction history and credit history using its CREPIA system. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. Kyongnam Bank and Kwangju Bank generally determine a borrower's eligibility depending on whether the borrower can prove that it owns an apartment or house or can provide a key money deposit. 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, 2005, approximately 78.7% of our mortgage and home equity loans were secured by residential or other property, 1.8% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 19.5% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). Since a relatively low percentage of our mortgage and home equity loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. One reason that a relatively high percentage of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2005, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)3,939 billion. For the year ended December 31, 2005, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 56.2%, compared to 62.5% for the year ended December 31, 2004.

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, 2005, approximately 91.6% 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, 2005, we had over 263,000 customers who qualified for private banking services, representing 1.6% of our total retail customer base. Of our total retail customer deposits of (Won)51,173 billion as of December 31, 2005, high net worth and mass affluent customers accounted for 55.0%.

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

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

Woori Bank has 237 branches that offer private banking services. These branches are staffed by 288 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, 2005, 74 private bankers were dispersed over 62 Kyongnam Bank branches and 38 private bankers were dispersed over 38 Kwangju Bank branches that provided private banking services.

We operate two financial products department stores in Seoul, which function as regular branches as well as wealth management advisory centers. Through these department stores, 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 23 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.

Deposit-Taking Activities

As of December 31, 2005, 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)48,631 billion, (Won)45,375 billion and (Won)51,173 billion as of December 31, 2003, 2004 and 2005, respectively, which constituted 54.6%, 50.4% and 49.1%, respectively, of the balance of our total deposits.

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

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

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

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

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

six months to ten years; and

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

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The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2005:

Time Deposits	Demand Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
53.15%	26.47%	12.17%	0.64%	7.57%

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 Law. This law sets forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from (Won)2 million to (Won)15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households.

Apartment application installment savings deposits, which are monthly installment savings programs providing the holder with a preferential right to subscribe for new private apartment units under the Housing Law. These deposits require monthly installments of (Won)50,000 to (Won)500,000, have maturities of between three and five years and accrue interest at fixed or variable rates depending on the term.

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See *Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System*. We pay an annual premium of 0.1% of our average deposits and, for the year ended December 31, 2005, our banking subsidiaries paid an aggregate of (Won)134 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 987 branches in Korea as of December 31, 2005, which on a combined basis, was the second-most extensive network of branches among Korean commercial banks. In Korea, consumer transactions are generally conducted in cash or with credit cards, and conventional checking accounts generally are not offered. Recently, demand for mutual funds and other asset management products as well as bancassurance products have been rising. These products require extensive sales force and customer interaction

to sell, further emphasizing the need for an extensive branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct most of their transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

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The following table presents the geographical distribution of our branch network in Korea as of December 31, 2005:

Area	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of	Number	% of	Number	% of	Number	% of
		Total		Total		Total		Total
Seoul	375	50.6%	3	2%	3	2.5%	381	38.6%
Five largest cities (other than Seoul)	123	16.6	7	6	77	65.3	207	21.0
Other	243	32.8	118	92	38	32.2	399	40.4
Total	741	100.0%	128	100%	118	100.0%	987	100.0%

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

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

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2005:

	ATMs	Cash Dispensers
Woori Bank	3,487	2,970
Kyongnam Bank	360	384
Kwangju Bank	286	385
Total	4,133	3,739

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.

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	For the year ended December 31,		
	2003	2004	2005
ATMs ⁽¹⁾ :			
Number of transactions (millions)	335	326	333
Fee income (billions of Won)	(Won) 35	(Won) 36	(Won) 34
Telephone banking:			
Number of users	3,323,220	3,739,279	4,131,770
Number of transactions (millions)	122	119	118
Fee income (billions of Won)	(Won) 14	(Won) 13	(Won) 14
Internet banking:			
Number of users	3,246,396	3,892,755	2,793,322
Number of transactions (millions)	498	651	915
Fee income (billions of Won)	(Won) 52	(Won) 68	(Won) 63

Kyongnam Bank

	For the year ended December 31,		
	2003	2004	2005
ATMs ⁽¹⁾ :			
Number of transactions (millions)	55	52	53
Fee income (billions of Won)	(Won) 2	(Won) 2	(Won) 2
Telephone banking:			
Number of users	461,163	511,971	568,804
Number of transactions (millions)	20	20	22
Fee income (billions of Won)	(Won) 2	(Won) 2	(Won) 2
Internet banking:			
Number of users	207,591	242,158	275,875
Number of transactions (millions)	33	43	52
Fee income (billions of Won)	(Won) 1	(Won) 1	(Won) 1

Kwangju Bank

	For the year ended December 31,		
	2003	2004	2005
ATMs ⁽¹⁾ :			
Number of transactions (millions)	52	52	39
Fee income (billions of Won)	(Won) 5	(Won) 6	(Won) 7

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Telephone banking:

Number of users	366,585	517,370	479,969
Number of transactions (millions)	24	18	18
Fee income (billions of Won)	(Won) 1	(Won) 1	(Won) 2

Internet banking:

Number of users	334,295	458,125	444,395
Number of transactions (millions)	23	33	36
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

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our banking subsidiaries. This is particularly true for telephone banking services, where a majority of the transactions are balance inquiries or consultations with customer representatives, although other services such as money transfers are also available.

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

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

We also participate in other Internet-related initiatives. For example, in May 2001, we began to offer *e-Clips*, a global aggregate account service system, to customers of Woori Bank. Before we launched this service, customers could only check their account status at the web site of the financial institution where they opened their accounts. In January 2001 we introduced *eWoori F/X* Trading, which we believe is Korea's first real-time, online foreign exchange trading system.

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

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, 2005, Woori Bank's market share based on transaction volume was approximately 5.3%, 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 and other ancillary services to BC Card for our Woori Bank credit card and Kyongnam Bank BC Card operations.

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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 31 to 53 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,

	2003			2004			2005		
	Woori Card ⁽¹⁾⁽²⁾	Kyongnam Bank BC Card	Kwangju Bank Visa Card ⁽³⁾	Woori Card ⁽¹⁾⁽⁴⁾	Kyongnam Bank BC Card	Kwangju Bank Visa Card ⁽⁵⁾	Woori Card ⁽¹⁾⁽⁴⁾	Kyongnam Bank BC Card	Kwangju Bank Visa Card ⁽⁵⁾
(in billions of Won, unless indicated otherwise)									
Number of credit card holders (at year end) (thousands of holders)									
General accounts	5,018	316	292	4,853	342	296	5,308	417	331
Corporate accounts	124	16	15	126	19	10	141	24	16
Total	5,142	332	307	4,979	361	306	5,449	441	347
Number of merchants (at year end) (thousands of merchants)	341	62	98	238	59	40	236	57	57
Active ratio ⁽⁶⁾	54.20%	42.49%	100%	37.40%	39.13%	81.70%	44.09%	41.81%	50.90%
Credit card interest and fees									
Installment and cash advance interest	(Won) 715	(Won) 25	(Won) 5	(Won) 343	(Won) 16	(Won) 7	(Won) 285	(Won) 14	(Won) 8
Annual membership fees	16	1		23	1		6		
Merchant fees	241	19	2	137	19	8	189	23	14
Other fees	122	5	10	67	5	4	42	3	3
Total	(Won) 1,094	(Won) 50	(Won) 17	(Won) 570	(Won) 41	(Won) 19	(Won) 522	(Won) 40	(Won) 25
Charge volumes									
General purchase	(Won) 6,851	(Won) 529	(Won) 117	(Won) 4,990	(Won) 580	(Won) 397	(Won) 7,231	(Won) 708	(Won) 500
Installment purchase	2,953	208	21	1,179	197	73	1,814	197	78
Cash advance	17,462	587	99	4,453	336	225	5,435	286	206
Card loan	70	30	55	2	8		4	3	
Total	(Won) 27,336	(Won) 1,354	(Won) 292	(Won) 10,624	(Won) 1,121	(Won) 695	(Won) 14,484	(Won) 1,194	(Won) 784
Outstanding balances (at year end)	(Won) 581	(Won) 62	(Won) 7	(Won) 524	(Won) 81	(Won) 41	(Won) 642	(Won) 95	(Won) 47

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General purchase										
Installment purchase	872	55	1	461	47	20	482	46	23	
Cash advance	1,440	49	1	596	34	25	605	33	21	
Card loan	822	24	1	289	9	1	95	3		
Total	(Won) 3,715	(Won) 190	(Won) 10	(Won) 1,870	(Won) 171	(Won) 87	(Won) 1,824	(Won) 177	(Won) 91	
Average outstanding balances										
General purchase	(Won) 691	(Won) 60	(Won) 18	(Won) 568	(Won) 75	(Won) 29	(Won) 632	(Won) 92	(Won) 48	
Installment purchase	1,354	76	19	528	50	17	462	45	20	
Cash advance	2,890	83	21	680	40	21	640	5	24	
Card loan	685	18	12	537	17		173	6		
Total	(Won) 5,621	(Won) 237	(Won) 70	(Won) 2,313	(Won) 182	(Won) 67	(Won) 1,907	(Won) 178	(Won) 92	
Delinquency ratios ⁽⁷⁾										
Less than 1 month	11.23%	2.41%	2.40%	2.20%	0.84%	1.61%	5.54%	1.87%	3.86%	
From 1 month to 3 months	6.72	2.58	2.64	2.30	0.99	1.15	1.20	0.68	0.96	
From 3 months to 6 months	13.81	3.96	2.51	3.96	1.36	1.35	1.30	0.71	0.65	
Over 6 months	2.89	0.28	7.42	0.42	0.36	4.46	0.36	0.66	0.77	
Total	34.65%	9.23%	14.97%	8.88%	3.55%	8.57%	8.40%	3.92%	6.24%	
Non-performing loan ratio ⁽⁸⁾										
Charge-offs (gross)	(Won) 1,257	(Won) 58	(Won) 20	(Won) 1,027	(Won) 23	(Won) 7	(Won) 168	(Won) 8	(Won) 7	
Recoveries	13	4		96	3		94	4		
Net charge-offs	(Won) 1,245	(Won) 55	(Won) 20	(Won) 931	(Won) 20	(Won) 7	(Won) 74	(Won) 4	(Won) 7	
Gross charge-off ratio ⁽⁹⁾										
Net charge-off ratio ⁽¹⁰⁾	22.37%	24.47%	28.37%	44.40%	12.64%	10.45%	8.81%	3.93%	6.52%	
	22.14%	23.00%	28.37%	40.25%	10.99%	10.45%	3.88%	2.25%	6.52%	

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- (1) Consists of credit cards issued by Woori Credit Card, Woori Bank and BC Cards and Visa cards issued through the BC Card consortium.
- (2) From March 2003, includes the credit card operations transferred from Kwangju Bank. The credit card operations of Kwangju Bank were transferred to Woori Credit Card in March 2003, but did not include outstanding credit card receivables at the date of transfer.
- (3) Reflects information for the credit card operations of Kwangju Bank prior to their transfer to Woori Credit Card in March 2003, as well as for the outstanding credit card receivables at the date of the transfer that were retained by Kwangju Bank.
- (4) From April 2004, excludes the credit card accounts previously acquired from Kwangju Bank (but not the outstanding credit card receivables relating to such accounts) which were spun off and transferred back to Kwangju Bank by Woori Credit Card in March 2004 prior to Woori Credit Card's merger with Woori Bank.
- (5) From April 2004, includes the former Kwangju Bank credit card accounts (but not the outstanding credit card receivables relating to such accounts) which were spun off and transferred back to Kwangju Bank by Woori Credit Card in March 2004 prior to Woori Credit Card's merger with Woori Bank.
- (6) 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.
- (7) 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 or replaced with substituted cash advances, and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans and substituted cash advances, outstanding balances overdue by 30 days or more accounted for 5.3% of our credit card receivables as of December 31, 2005.
- (8) 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 or replaced with substituted cash advances, in each case that were classified as normal or precautionary as of December 31, 2003, 2004 and 2005:

	As of December 31,		
	2003	2004	2005
	(in billions of Won)		
Restructured loans	(Won) 635	(Won) 43	(Won) 62
Substituted cash advances	2		

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

	As of or for the year ended December 31,								
	2003			2004			2005		
	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card
	(in billions of Won, unless indicated otherwise)								
Non-performing loan ratio	33.46%	12.36%	9.93%	6.33%	5.02%	6.63%	2.23%	1.79%	1.67%

- (9) 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 or replaced with substituted cash advances that are more than six months overdue from the point at which the relevant balances were so restructured or replaced), except for those balances with a reasonable probability of recovery. The following table shows, as of the dates indicated, the outstanding amounts of restructured loans and substituted cash advances greater than six months past due from the initial delinquency date:

	As of December 31,		
	2003	2004	2005
	(in billions of Won)		
Restructured loans greater than six months past due from the initial delinquency date and not charged off	(Won) 50	(Won) 49	(Won) 6
Substituted cash advances greater than six months past due from the initial delinquency date and not charged off	271		
Total	(Won) 321	(Won) 49	(Won) 6

⁽¹⁰⁾ Represents the ratio of net charge-offs for the year to average outstanding balances for the year.

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

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

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

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

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

Credit card use in Korea has increased dramatically in recent years as the Korean economy and consumer spending recovered from the financial crisis and as a result of Korean government initiatives promoting the use of credit cards. For example, the government requires merchants to accept credit cards in order to prevent tax evasion by ensuring proper disclosure of transactions, and provides tax benefits to businesses that accept credit cards. For consumers, there is also a tax deduction for certain amounts spent using credit cards. However, there has been significant concern in Korea regarding the high levels of credit card usage (including cash advances) and the deteriorating asset quality of the credit card portfolios of Korean financial institutions. In response to such concerns, the Korean government has increased its regulatory oversight of the credit card industry. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio and Supervision and Regulation Credit Card Business. In order to address the problem of increasing delinquencies and deteriorating asset quality, we took measures commencing in 2003 to reduce the overall level of our outstanding credit card receivables, including by lowering credit limits for cardholders and suspending the availability of new credit card loans.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans commencing in 2002. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of (Won)1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a downpayment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2005, the total amount of our restructured loans was (Won)62 billion (which also included revolving loans and installment loans). Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances. In addition, in line with industry practice, we have in the past agreed with selected cardholders to replace their delinquent credit card balances with cash advances that are rolled over from month to month. We discontinued this practice commencing in September 2003.

Payments and Charges

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

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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

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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 60 months, up to a maximum loan amount of (Won)30 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 11.0% 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 11.5% to 27.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a commission of (Won)600 per withdrawal.

We also charge a basic annual membership fee of (Won)2,000 to (Won)5,000 for regular cards, (Won)5,000 to (Won)10,000 for gold cards and (Won)30,000 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.

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, 2005, we charged merchants an average of 2.54% of their respective total transaction amounts. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

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

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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

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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. As a result of the merger, we currently own a 35.1% voting interest in Woori Investment & Securities. As of December 31, 2005, Woori Investment & Securities had consolidated total assets of (Won)9 trillion, consolidated total liabilities of (Won)7 trillion and consolidated total shareholders' equity of (Won)2 trillion, on a Korean GAAP basis. For the nine-month period ended on December 31, 2005, Woori Investment & Securities generated consolidated revenues of (Won)1,107 billion and consolidated net income of (Won)200 billion, on a Korean GAAP basis.

Securities Investment and Trading

Through Woori Bank and Woori Investment & Securities (which is an equity method investee and whose operations are therefore not included in the figures presented below for 2005) and, 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, 2005, 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)32,000 billion and represented 20.7% 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, 2005, we held debt securities with a total book value of (Won)30,609 billion, of which:

held-to-maturity debt securities accounted for (Won)9,638 billion, or 31.5%;

available-for-sale debt securities accounted for (Won)17,284 billion, or 56.5%; and

trading debt securities accounted for (Won)3,687 billion, or 12.0%.

Of these amounts, as of December 31, 2005, debt securities issued by the Korean government and government agencies amounted to (Won)8,188 billion, or 85.0%, of our held-to-maturity debt securities, (Won)11,105 billion, or 60.7%, of our available-for-sale debt securities, and (Won)1,726 billion, or 42.4%, 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, 2005:

equity securities in our available-for-sale portfolio had a book value of (Won)640 billion, or 3.5%, of our available-for-sale portfolio; and

equity securities in our trading portfolio had a book value of (Won)293 billion, or 7.2%, of our trading portfolio.

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

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, 2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,592	(Won) 45	(Won) (19)	(Won) 6,618
Corporate	2,697	73	(13)	2,757
Financial institutions	2,234	17	(3)	2,248
Mortgage backed securities	72	1	(1)	72
Foreign governments	42			42
Subtotal	11,637	136	(36)	11,737
Equity securities	192	96	(8)	280
Beneficiary certificates ⁽¹⁾	384	8	(1)	391
Total available-for-sale securities	(Won) 12,213	(Won) 240	(Won) (45)	(Won) 12,408
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 8,466	(Won) 343	(Won) (6)	(Won) 8,803
Corporate	490	2		492
Financial institutions	806	4	(2)	808
Foreign governments	39	1		40
Total held-to-maturity securities	(Won) 9,801	(Won) 350	(Won) (8)	(Won) 10,143

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As of December 31, 2004				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
(in billions of Won)				
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,308	(Won) 57	(Won) 7	(Won) 6,358
Corporate	3,308	77	3	3,382
Financial institutions	1,976	13		1,989
Mortgage backed securities	65			65
Foreign governments	50			50
Subtotal	11,707	147	10	11,844
Equity securities	199	204	2	401
Beneficiary certificates ⁽¹⁾	58	3	4	57
Total available-for-sale securities	(Won) 11,964	(Won) 354	(Won) 16	(Won) 12,302
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 7,567	(Won) 318		(Won) 7,885
Corporate	213	34		247
Financial institutions	561	6		567
Mortgage backed securities	20			20
Foreign governments	45			45
Total held-to-maturity securities	(Won) 8,406	(Won) 358		(Won) 8,764
As of December 31, 2005				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
(in billions of Won)				
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 11,108	(Won) 15	(Won) 18	(Won) 11,105
Corporate	3,571	45	31	3,585
Financial institutions	2,449	9	5	2,453
Mortgage backed securities	92			92
Foreign governments	49			49
Subtotal	17,269	69	54	17,284
Equity securities	191	449		640
Beneficiary certificates ⁽¹⁾	359	6		365
Total available-for-sale securities	(Won) 17,819	(Won) 524	(Won) 54	(Won) 18,289

Held-to-maturity securities:

Debt securities

Korean Treasury securities and government agencies	(Won) 8,188	(Won) 31	(Won) 60	(Won) 8,159
Corporate	73	9		82
Financial institutions	1,274	1	7	1,268
Mortgage backed securities	48			48
Foreign governments	55	1		56
	<hr/>	<hr/>	<hr/>	<hr/>
Total held-to-maturity securities	(Won) 9,638	(Won) 42	(Won) 67	(Won) 9,613
	<hr/>	<hr/>	<hr/>	<hr/>

- ⁽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 for 2005). Our trading volume was (Won)27,114 billion in 2003, (Won)52,432 billion in 2004 and (Won)71,149 billion in 2005, respectively. Our net trading revenue from derivatives and foreign exchange spot contracts for the years ended December 31, 2003, 2004 and 2005 was (Won)67 billion, (Won)77 billion and (Won)150 billion, respectively.

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

interest rate swaps, options and futures, relating principally to Won interest rate risks;

index futures and options, relating to stock market fluctuations;

cross currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;

foreign exchange forwards, swaps, options and futures, relating to foreign exchange risks; and

credit derivatives, which we provide to financial institutions that wish to hedge existing credit exposures or take on credit exposure to generate revenue.

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

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

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

As of December 31,

	2003		2004		2005	
	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) 1	(Won) 2	(Won) 3	(Won) 4	(Won) 13	(Won) 13
Foreign exchange derivatives	218	271	1,227	1,236	609	535
Interest rate derivatives	223	178	168	169	120	189
Equity derivatives	26	11	22	218	73	602
Credit derivatives ⁽¹⁾	1	11		1		
Total	(Won) 469	(Won) 473	(Won) 1,420	(Won) 1,628	(Won) 815	(Won) 1,339

⁽¹⁾ Our total exposure under credit derivatives outstanding was US\$60 million as of December 31, 2005. In connection with such credit derivatives, we accept credit exposure with respect to foreign currency-denominated corporate debt instruments held by counterparties by guaranteeing payments under such instruments, subject to our overall credit limits with respect to the applicable issuers.

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

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

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

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2005, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)5,571 billion and generated total fee income under Korean GAAP of approximately (Won)40 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 2005, Woori Investment & Securities generated investment banking revenue under Korean GAAP of approximately (Won)21 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 2005, Woori Bank generated investment banking revenue of approximately (Won)129 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, 2005, Woori Investment & Securities had 134 branches. We also provide securities brokerage services through the Internet and through HTS via the following systems: W-on Trading, W-on Stox and X-Trade, Web-Trading and Q-Trading. In 2005, Woori Investment & Securities generated fee income under Korean GAAP of approximately (Won)382 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

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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,		
	2003	2004	2005
	(in millions of US\$)		
Total foreign currency assets	US\$ 14,331	US\$ 14,135	US\$ 14,634
Foreign currency borrowings			
Call money	286	162	109
Secured borrowings	964	407	
Long-term borrowings	3,190	3,604	3,314
Short-term borrowings	3,467	4,462	5,505
Total foreign currency borrowings	US\$ 7,907	US\$ 8,635	US\$ 8,929

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2005.

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

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

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In addition, Woori America Bank currently operates 14 branches in New York, New Jersey, 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\$813 million as of December 31, 2005 and net income of US\$10 million in 2005. 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.

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

In July 2003, Woori Bank entered into a memorandum of understanding with the Industrial and Commercial Bank of China to undertake a joint marketing effort to corporate clients who are expanding their business potential in the region, as well as to promote information exchange between the two institutions.

Asset Management

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

Trust Management Services

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

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

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

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

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

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

We receive fees for our trust management services consisting of:

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

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

We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Money trust management is currently the largest source of our fee income. Fees that we received for

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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)45 billion in 2003, (Won)40 billion in 2004 and (Won)13 billion in 2005.

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

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

	As of December 31,		
	2003	2004	2005
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 12	(Won) 13	(Won) 14
Principal guaranteed trusts	1,574	1,934	1,896
Performance trusts	4,538	3,465	4,330
Total	(Won) 6,124	(Won) 5,412	(Won) 6,241

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, 2005, under Korean GAAP, our money trusts had invested in securities with an aggregate book value of (Won)4,906 billion, which accounted for 78.62% of our money trust assets. Debt securities accounted for (Won)2,296 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, 2005, equity securities held by our money trusts amounted to (Won)442 billion on a Korean GAAP basis, which accounted for approximately 2.9% of our money trust assets. Of this amount, (Won)250 billion was from specified money trusts and the remaining (Won)164 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, 2005, under Korean GAAP, our money trusts had made loans in the aggregate principal amount of (Won)127 billion (excluding loans to our banking operations of (Won)1,063 billion), which accounted for approximately 0.8% 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, 2005, 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 2005, we made no such payments.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products, took effect in January 2004. Under that law, unless a bank qualified as an asset management company by July 2004, it cannot offer unspecified money trust products (except under certain limited circumstances). See Supervision and Regulation Trust Business. As a result, commencing in July 2004, we ceased offering unspecified money trust products through our banking subsidiaries and transferred the unspecified money trust

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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 2005, 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, 2005, the balance of our property trusts totaled (Won)8,761 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 securities investment trust products to our customers and manage the funds 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 four different types of investment trust products, including:

equity funds, where equity securities or equity-linked securities consist of 60% or more of their assets;

bond 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; and

money market funds, which invest mostly in short-term financial products, such as call loans, commercial paper and certificates of deposit.

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.

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,		
	2003	2004	2005
	(in billions of Won)		
Equity funds	(Won) 338	(Won) 185	(Won) 736
Bond funds	1,989	2,742	3,263
Hybrid funds	1,324	1,163	1,311
Money market funds	1,667	1,881	6,770
Total	(Won) 5,318	(Won) 6,339	(Won) 12,962

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We receive fees for our investment trust management services consisting of:

management fees in connection with establishing, operating and managing the investment trust;

sales fees in connection with selling trust assets and/or interests in the trust; and

trustee fees in connection with administering the trust and its securities portfolio.

These fees are calculated by multiplying the daily net asset value of the trust by a percentage provided in the trust documentation. Fees accrue on a daily basis and are paid out as expenses periodically.

Fees from our investment trust management services amounted to (Won)12 billion in 2003, (Won)17 billion in 2004 and (Won)19 billion in 2005. Fee levels changed by investment trust management companies have been declining in recent years due to increasing competition and market saturation.

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, especially in light of our enhanced investment trust management capabilities and reputation as a result of our acquisition and integration of LGITM. 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, including those that would be attractive to our private banking customers.

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank, we act as a trustee for approximately 1,085 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.

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For the year ended December 31, 2005, our fee income from such services was (Won)6.1 billion.

Other Businesses

Merchant Banking

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

commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital;

factoring financing, which entails purchasing at a discount trade receivables held by companies to supply them with capital;

payment guarantees, which entail issuing guarantees in respect of notes in return for fees; and

lending, which entails making medium- to long-term Won-denominated and foreign currency-denominated loans to customers.

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

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

As a result, since 2001 we have been concentrating on improving the asset quality of our merchant banking operations by disposing of non-performing assets through asset sales to KAMCO and to various special purpose companies formed as a result of joint ventures with several financial institutions. See [Assets and Liabilities](#) [Asset Quality of Loans](#) [Sales of Non-Performing Loans](#).

We merged Woori Investment Bank with Woori Bank in August 2003 in order to reduce our costs and take advantage of potential synergies with Woori Bank's corporate banking activities.

Management of National Housing Fund

In November 2002, we were selected to manage the operations of the National Housing Fund, together with two other financial institutions. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2005, outstanding housing loans from the National Housing Fund amounted to approximately (Won)50 trillion, of which we originated approximately (Won)6 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. In February 2003, the Ministry of Construction and Transportation amended the method of calculating these fees. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. In 2005, we received total fees of approximately (Won)26 billion for managing the National Housing Fund compared to approximately (Won)19 billion in 2004.

Bancassurance

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The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we currently market a wide range of bancassurance products in connection with a revision to existing regulations in 2003 that liberalized the bancassurance market in Korea. The revision has allowed us to offer insurance products commencing in September 2003. In 2005, we generated

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fee income of approximately (Won)79 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. Woori Bank has entered into bancassurance marketing arrangements with 20 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Korea Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plan to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base.

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity will make long-term and strategic investments in buyout target companies, as well as actively involving itself in their management. This would involve identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those investees so as to enhance their enterprise value. We expect Woori Private Equity's operations to provide us with greater investment opportunities and a new source of business for other related segments, especially corporate banking. Currently, Woori Private Equity plans to set up a fund by the end of June 2006, the size of which is expected to reach approximately (Won)340 billion.

Competition

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

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

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the last few years, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005 and the contemplated acquisition of Korea Exchange Bank by Kookmin Bank in the second half of 2006. 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.

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As of December 31, 2005, the balance of our total loan portfolio was (Won)104,130 billion, a 15.1% increase from (Won)90,489 billion as of December 31, 2004. As of December 31, 2005, 90.2% of our total loans were Won-denominated loans and 9.8% of our total loans were denominated in other currencies. Of the (Won)10,255 billion of foreign currency-denominated loans as of that date, approximately 24.1% 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,					
	2001	2002	2003	2004	2005	2005
	(in billions of Won)					(%)
Domestic:						
Corporate:						
Commercial and industrial	(Won) 25,363	(Won) 33,717	(Won) 40,642	(Won) 42,445	(Won) 47,232	45.4%
Lease financing	630	310	222	132	75	0.1
Trade financing	6,048	6,562	6,922	7,073	7,172	6.9
Other commercial	5,812	5,466	4,254	4,270	4,727	4.5
Total corporate	37,853	46,055	52,040	53,920	59,206	56.9
Consumer:						
General purpose household ⁽¹⁾	14,026	23,315	26,758	27,618	34,906	33.5
Mortgage	1,147	2,451	3,599	4,684	5,458	5.2
Total consumer	15,173	25,766	30,357	32,302	40,364	38.7
Credit cards	5,292	6,418	3,964	2,128	2,092	2.0
Total domestic	58,318	78,239	86,361	88,350	101,662	97.6
Foreign:						
Corporate:						
Commercial and industrial	(Won) 1,821	(Won) 1,811	(Won) 1,884	(Won) 1,730	(Won) 2,316	2.2
Trade financing	976	96	63	104	76	0.1
Total corporate	2,797	1,907	1,947	1,834	2,392	2.3
Consumer	77	80	84	305	76	0.1
Total foreign	2,874	1,987	2,031	2,139	2,468	2.4

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Total gross loans	61,192	80,226	88,392	90,489	104,130	100.0
Less: Unearned income	(96)	(40)	(26)	(14)	(7)	0.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total loans	(Won) 61,096	(Won) 80,186	(Won) 88,366	(Won) 90,475	(Won) 104,123	100.0%
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(1) Includes home equity loans.

Loan Concentrations

Each of our banking subsidiaries limits its total exposure to any single borrower as required by Korean regulations and pursuant to its internal policies. Woori Bank determines this limit based on the borrower's credit rating provided by the bank's CREPIA system. Woori Bank may adjust this limit if it would otherwise exceed the

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limit imposed by Korean regulations. See Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to any Individual Customer and Major Shareholder. Kyongnam Bank limits total exposure to any single borrower or *chaebol* to 10% of the sum of its Tier I and Tier II capital (less any capital deductions). Kwangju Bank limits its total exposure to 10% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single borrower and 15% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single *chaebol*.

20 Largest Exposures by Borrower

As of December 31, 2005, our exposures to our 20 largest borrowers totaled (Won)12,498 billion and accounted for 8.9% of our total exposures. The following table sets forth our total exposures to those borrowers as of that date:

Company (credit rating) ⁽²⁾	Loans		Equity Securities	Debt Securities	Guarantees and acceptances	Credit derivatives	Total exposures	Collateral	Amounts classified as substandard or below ⁽¹⁾
	Won Currency	Foreign Currency							
(in billions of Won)									
Korea Deposit Insurance Corporation ⁽³⁾	(Won) 26			(Won) 3,044			(Won) 3,070		
Korea Development Bank ⁽³⁾	41			1,158			1,199	(Won) 27	
Industrial Bank of Korea (AAA)	395		(Won) 2	580			977		
Samsung Electronics (AAA)	70	(Won) 826	35		(Won) 13		944		
LG Card (A)	135		399	95	4		633		
Korea Gas Corp. (AAA)			1	599			600		
Standard Chartered First Bank of Korea (AAA)	1			543			544		
LG Electronics (AA-)	83	371	2	15	27		498		
Hyosung Corporation (A-)	63	124		138	125		450	80	
Hankook Tire (A+)	66	222	1		91		380	5	
Kia Motors (AA-)	3	226	3	104	33		369		
National Federation of Fisheries Cooperatives (AA)		150		206			356	90	
Kookmin Bank (AAA)	113		4	236			353	14	
Hyundai Heavy Industries (A-)			3		346		349		
LG Chem (AA)	13	237	1		71		322	1	
Shinhan Bank (AA)	36			282			318		
Samsung Card (AA-)	90	201		15	4		310		
Samsung Corporation (A+)	130	71	4	23	54		282	130	
SK Networks (C)	126	17	34	66	36		279	5	
	100			165			265		

Incheon International
Airport Corporation

Total	(Won) 1,491	(Won) 2,445	(Won) 489	(Won) 7,269	(Won) 804	(Won) 12,498	(Won) 352
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- (1) Classification is based on the Financial Supervisory Commission's asset classification criteria.
- (2) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2005: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings, as S&P and Moody's credit ratings were unavailable.
- (3) Credit ratings unavailable.

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As of December 31, 2005, ten 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.

As of December 31, 2005, we had total exposures of (Won)279 billion to SK Networks (formerly SK Global), all of which were classified as impaired under U.S. GAAP. In March 2003, the principal creditor banks of SK Networks commenced corporate restructuring procedures against SK Networks after the company publicly announced that its financial statements had understated its debt by (Won)1 trillion and overstated its profits by (Won)1.5 trillion in its financial statements. This admission resulted from a government investigation of a number of SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan. In addition, in November 2003, Woori Bank and the ten other creditor banks to SK Networks received a warning from the Financial Supervisory Service for failing to provide accurate exposure information to the external auditors of SK Networks in connection with their audit of that company. The Financial Supervisory Service also issued a warning to Woori Securities and another Korean brokerage firm in connection with their involvement in assisting SK Networks to raise funds by issuing commercial paper. As of December 31, 2005, our allowance against our loans and guarantees to SK Networks was (Won)30 billion, or 16.7% of the aggregate principal amount of our loans and guarantees to SK Networks.

Exposure to Chaebols

As of December 31, 2005, 9.3% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2005, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans						Total exposures	Collateral	Amount classified as precautionary or below ⁽¹⁾	Amounts classified as substandard or below ⁽¹⁾
	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Credit derivatives				
(in billions of Won)										
Samsung	(Won) 670	(Won) 1,450	(Won) 213	(Won) 118	(Won) 238		(Won) 2,688	(Won) 133		
Hyundai										
Motors	569	572	11	300	156		1,608	23	(Won) 1	
LG	238	909	15	74	226		1,462	1	138	
SK	205	132	26	26	71		461	5	162	
Hanjin	44	104	4	19	18		190	11		
Lotte	178	58		174	10		420	7		
Hanhwa	369	117	1	10	58		555	168		
KT	22	5	21	20	1		69			
Dongbu	158	89	2		68		318	177		
Doosan	108	349	1	46	83		587	185		
Total	(Won) 2,561	(Won) 3,785	(Won) 294	(Won) 787	(Won) 928		(Won) 8,358	(Won) 710	(Won) 301	

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

Table of Contents*Loan Concentration by Industry*

The following table shows, as of December 31, 2005, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of total lending:

	Aggregate corporate loan balance	Percentage of total corporate loan balance
Industry	(in billions of Won)	
Manufacturing	(Won) 23,675	38.4%
Retail and wholesale	9,044	14.7
Hotel, leisure or transportation	4,622	7.5
Government and government agencies	97	0.2
Construction	4,827	7.8
Financial and insurance	2,130	3.5
Other	17,196	27.9
Total	(Won) 61,591	100.0%

Table of Contents*Loan Concentration by Size of Loans*

The following tables show, as of December 31, 2005, the aggregate balances of our loans by outstanding loan amount:

Corporate

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)100 million	(Won) 5,215	5.0%
Over (Won)100 million to (Won)1 billion	21,028	20.2
Over (Won)1 billion to (Won)10 billion	10,517	10.1
Over (Won)10 billion to (Won)50 billion	6,970	6.7
Over (Won)50 billion to (Won)100 billion	1,685	1.6
Over (Won)100 billion	1,817	1.8
	<hr/>	<hr/>
Sub-total	47,232	45.4
Lease financing loans		
Up to (Won)100 million		
Over (Won)100 million to (Won)1 billion	11	
Over (Won)1 billion to (Won)10 billion	47	0.1
Over (Won)10 billion to (Won)50 billion	10	
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
	<hr/>	<hr/>
Sub-total	68	0.1
Trade financing loans		
Up to (Won)100 million	1,300	1.3
Over (Won)100 million to (Won)1 billion	3,228	3.1
Over (Won)1 billion to (Won)10 billion	2,115	2.0
Over (Won)10 billion to (Won)50 billion	529	0.5
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
	<hr/>	<hr/>
Sub-total	7,172	6.9
Other commercial loans		
Up to (Won)100 million	589	0.5
Over (Won)100 million to (Won)1 billion	1,860	1.8
Over (Won)1 billion to (Won)10 billion	1,241	1.2
Over (Won)10 billion to (Won)50 billion	712	0.7
Over (Won)50 billion to (Won)100 billion	325	0.3
Over (Won)100 billion		
	<hr/>	<hr/>
Sub-total	4,727	4.5
Foreign commercial and industrial loans		

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Up to (Won)100 million	54	0.1
Over (Won)100 million to (Won)1 billion	321	0.3
Over (Won)1 billion to (Won)10 billion	986	0.9
Over (Won)10 billion to (Won)50 billion	854	0.8
Over (Won)50 billion to (Won)100 billion	101	0.1
Over (Won)100 billion		
Sub-total	2,316	2.2
Foreign trade financing loans		
Up to (Won)100 million	6	
Over (Won)100 million to (Won)1 billion	14	
Over (Won)1 billion to (Won)10 billion	23	
Over (Won)10 billion to (Won)50 billion	33	0.1
Over (Won)50 billion to (Won)100 billion		
Over (Won)100 billion		
Sub-total	76	0.1

Table of Contents**Consumer**

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
General purpose household loans ⁽¹⁾		
Up to (Won)10 million	3,775	3.6
Over (Won)10 million to (Won)50 million	11,311	10.8
Over (Won)50 million to (Won)100 million	7,894	7.6
Over (Won)100 million to (Won)500 million	10,510	10.1
Over (Won)500 million to (Won)1 billion	944	0.9
Over (Won)1 billion	472	0.5
	<hr/>	<hr/>
Sub-total	34,906	33.5
Mortgage loans		
Up to (Won)10 million	29	
Over (Won)10 million to (Won)50 million	998	0.9
Over (Won)50 million to (Won)100 million	2,110	2.0
Over (Won)100 million to (Won)500 million	2,212	2.1
Over (Won)500 million to (Won)1 billion	109	0.1
	<hr/>	<hr/>
Sub-total	5,458	5.2
Credit cards		
Up to (Won)10 million	1,929	1.9
Over (Won)10 million to (Won)50 million	91	0.1
Over (Won)50 million to (Won)100 million	13	
Over (Won)100 million	59	
	<hr/>	<hr/>
Sub-total	2,092	2.0
Foreign consumer loans		
Up to (Won)10 million	1	
Over (Won)10 million to (Won)50 million	1	
Over (Won)50 million to (Won)100 million	4	
Over (Won)100 million to (Won)500 million	42	0.1
Over (Won)500 million to (Won)1 billion	11	
Over (Won)1 billion to (Won)5 billion	17	
Over (Won)5 billion		
	<hr/>	<hr/>
Sub-total	76	0.1
	<hr/>	<hr/>
Total	(Won) 104,123	100.0%
	<hr/>	<hr/>

⁽¹⁾ Includes home equity loans.

Table of Contents*Maturity Analysis*

The following table sets out, as of December 31, 2005, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed are before deduction of allowance for loan losses:

	<u>1 year or less</u>	<u>Over 1 year but not more than 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
	(in billions of Won)			
Domestic				
Corporate				
Commercial and industrial	(Won) 34,755	(Won) 9,436	(Won) 3,041	(Won) 47,232
Lease financing	36	32		68
Trade financing	7,169	3		7,172
Other commercial	3,210	733	784	4,727
Total corporate	45,170	10,204	3,825	59,199
Consumer				
General purpose household ⁽¹⁾	20,519	8,480	5,907	34,906
Mortgage	2,166	3,093	199	5,458
Credit cards	1,929	71	92	2,092
Total consumer	24,614	11,644	6,198	42,456
Total domestic	69,784	21,848	10,023	101,655
Foreign				
Corporate				
Commercial and industrial	1,421	471	424	2,316
Lease financing				
Trade financing	76			76
Other commercial				
Total corporate	1,497	471	424	2,392
Consumer:				
Other consumer	1	2	73	76
Total foreign	1,498	473	497	2,468
Total loans	(Won) 71,282	(Won) 22,321	(Won) 10,520	(Won) 104,123

⁽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, 2005, the total amount of our loans due after one year, that have fixed interest rates and variable or adjustable interest rates:

	<u>Domestic</u>	<u>Foreign</u>	<u>Total</u>
	(in billions of Won)		
Fixed rate ⁽¹⁾	(Won) 6,117	(Won) 145	(Won) 6,262
Variable or adjustable rates ⁽²⁾	25,754	825	26,579
Total loans	(Won) 31,871	(Won) 970	(Won) 32,841

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

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

Asset Classification

Characteristics

Normal	Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
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Precautionary	<p>Credits extended to customers that:</p> <ul style="list-style-type: none"> 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.
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Substandard	<p>Either:</p> <ul style="list-style-type: none"> 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
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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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<u>Asset Classification</u>	<u>Characteristics</u>
Doubtful	<p>Credits exceeding the amount we expect to collect of total credits to customers that:</p> <p style="padding-left: 40px;">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</p> <p style="padding-left: 40px;">have been in arrears for three months or more but less than twelve months.</p>
Estimated Loss	<p>Credits exceeding the amount we expect to collect of total credits to customers that:</p> <p style="padding-left: 40px;">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;</p> <p style="padding-left: 40px;">have been in arrears for twelve months or more; or</p> <p style="padding-left: 40px;">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.</p>

Loan Loss Provisioning Policy

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

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

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

loans that are 30 days or more past due;

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

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

Once we have identified a loan as impaired, we generally measure the value of the loan based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. If the measured value is less than the book value of the loan, we establish a specific allowance for the amount deemed

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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)470 billion, (Won)308 billion and (Won)211 billion for 2003, 2004 and 2005, 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 2003, 2004 and 2005 was (Won)236 billion, (Won)148 billion and (Won)109 billion, respectively.

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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 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,														
		2001			2002			2003			2004			2005		
		Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
(in billions of Won)																
d for																
ual																
e (Won) 3,086 (Won) 80 (Won) 3,166 (Won) 1,889 (Won) 91 (Won) 1,990 (Won) 1,732 (Won) 143 (Won) 1,875 (Won) 1,202 (Won) 2 (Won) 1,204 (Won) 1,026 (Won) 11 (W																
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(1) Includes credit card balances of (Won)329 billion, (Won)702 billion, (Won)1,304 billion, (Won)216 billion and (Won)95 billion as of December 31, 2001, 2002, 2003, 2004 and 2005, respectively.

(2) Includes accruing loans that are contractually past due 90 days or more in the amount of (Won)250 billion, (Won)4 billion, (Won)4 billion and (Won)3 billion as of December 31, 2001, 2003, 2004 and 2005, respectively.

Loan Aging Schedule

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

Normal	1-3 months	3-6 months	More than	Total
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As of December 31,			Amount		Amount		6 months		Amount	
	Amount	%	past due	%	past due	%	past due	%	Amount	%
2002	(Won) 77,676	96.9%	(Won) 684	0.8%	(Won) 421	0.5%	(Won) 1,405	1.8%	(Won) 80,186	100.0%
2003	86,194	97.5	623	0.7	956	1.1	593	0.7	88,365	100.0
2004	88,697	98.1	541	0.6	547	0.6	690	0.7	90,475	100.0
2005	102,833	98.8	335	0.3	325	0.3%	630	0.6	104,123	100.0

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

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower's credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and expired on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applied to more than 420 financial institutions in Korea, which included commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the KDIC and KAMCO. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a

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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 debt restructuring) finalized the borrower's restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan was also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagreed with the final restructuring plan approved by the creditors' committee had the right to request the creditors' committee to purchase its claims at a mutually agreed price. In the event that the creditors' committee and the dissenting creditor financial institution failed to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts would be set up to resolve the matter. See Item 3D. Risk Factors - Risks relating to our corporate credit portfolio. The Korean government is currently in the process of amending the Corporate Restructuring Promotion Act to extend its effective term. The Korean government has announced that if it does not extend the effective term of the Corporate Restructuring Promotion Act, it would adopt a voluntary system similar to the restructuring procedures under the Corporate Restructuring Promotion Act.

Korean law has also provided for corporate reorganization proceedings and composition proceedings, both of 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. Corporate reorganization and composition proceedings differ in two principal ways. First, in a corporate reorganization, the court appoints a receiver who has the power, subject to court supervision, to conduct all of the company's business and manage all of the company's property and assets. In composition, however, the company's existing management continues to manage the company and negotiate on its behalf with its major creditors to solve what will generally be interpreted as a temporary insolvency problem. Second, in corporate reorganization, any creditor whose claim against the company arose before the corporate reorganization proceeding began, whether secured or unsecured, may only enforce those claims in the manner and to the extent provided for in the reorganization plan. If a creditor intends to participate in a reorganization plan, it must file its claim with the court within a period fixed by the court. In composition, however, secured creditors are not subject to the composition plan, and are entitled to foreclose on their collateral outside the scope of the composition proceeding. To the extent that a secured creditor has any uncollected deficiency after it forecloses on its collateral, it may then participate in the composition proceeding as an unsecured creditor with respect to that balance.

The procedural and substantive aspects of Korean corporate reorganization and composition proceedings differ significantly from comparable proceedings in the United States. Examples of these differences include the following:

Korean corporate reorganization proceedings can only be initiated by a petition from the company, creditors with claims equal to one-tenth of the company's paid-in capital or a shareholder owning at least 10% of a company's outstanding share capital, while Korean composition proceedings can only be initiated by a petition from the company. U.S. bankruptcy proceedings can be initiated by the company or by a petition by three or more creditors (where the debtor has more than 5 creditors) holding claims that are not contingent as to liability or the subject of a bona fide dispute, whose unsecured claims amount to at least US\$11,625 in the aggregate.

Unlike the United States, where insolvency proceedings begin automatically upon the filing of a petition, in Korea, a court must approve an application for reorganization or composition before the proceeding may commence. During the period in which an application for Korean reorganization or composition proceeding is pending, the debtor can continue to dispose of its assets or incur additional liabilities until the court acts to freeze its assets and liabilities through a preservation order. Once the court approves commencement of a proceeding, assets and liabilities are frozen, although in a composition proceeding secured creditors may continue to seek satisfaction outside the proceeding. Filing of a bankruptcy proceeding in the United States triggers an automatic stay that generally prevents any creditor from taking steps to collect pre-bankruptcy debts, including foreclosure on security by secured creditors.

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Under Korean reorganization proceedings, the court will appoint a receiver to manage the company, while Korean composition proceedings permit existing management to continue to operate the company with a receiver being appointed to advise the company and represent the court's interests. While a trustee is appointed in U.S. liquidation proceedings, U.S. bankruptcy reorganization proceedings generally allow management to remain in control as the debtor in possession, but require court approval of any transactions outside the ordinary course of business.

As a practical matter, a Korean receiver appointed in connection with a reorganization proceeding will usually draft the reorganization plan. Under a composition plan, submitting such a plan is the responsibility of the company. Under U.S. bankruptcy law, the debtor is generally the only party that may file a reorganization plan for the first 120 days following the filing of the bankruptcy petition, after which time any party that has a substantial stake in the outcome may file a plan, unless the bankruptcy court extends the debtor's exclusive period for proposing a plan.

Approval of a Korean reorganization plan must be affirmed by unsecured creditors holding claims totaling not less than two-thirds of the total number of such claims that have voting rights and secured creditors holding reorganization claims totaling not less than three-quarters of such claims that have voting rights, while a composition plan must be approved by the affirmative vote of both (a) a simple majority of all creditors that attend the creditors' meeting and (b) creditors who hold three-fourths or more of the total monetary value of filed claims. Under U.S. bankruptcy law, only creditors whose rights are impaired or altered will have the right to vote on a plan. Voting occurs by class of similarly situated creditors, and must be approved by creditors holding a majority in number and two-thirds in amount of the allowed claims of each class that have voted on the plan. A U.S. bankruptcy court has the ability to force non-consenting creditor classes to accept a plan in certain circumstances. In both Korea and the United States, once a plan has been approved, it must be authorized by a court and the requisite creditors.

The Law Concerning Credit Restoration and Bankruptcy 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 Law Concerning Credit Restoration and Bankruptcy 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, 2005, (Won)633 billion, or 0.5%, of our total loans and debt securities were in workout or restructuring. This included (Won)598 billion of loans to and debt securities of large corporate borrowers in workout or restructuring and (Won)35 billion of loans to and debt securities of small- and medium-sized enterprises in workout or restructuring, which represented 94.5% and 5.5% of our loans to and debt securities of such customers and 0.5% and 0.03% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout or restructured loans. At Woori Bank, for example, the Credit Management and Collection Center manages its workout and restructured loans. Upon approval of a workout or restructuring plan, a credit exposure is 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.

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The following table shows, as of December 31, 2005, our ten largest exposures that were in workout or restructuring, including composition or court receivership:

Company (credit rating) ⁽¹⁾	Loans		Equity Securities	Debt Securities	Guarantees and Acceptances	Credit Derivatives	Total Exposures	Collateral	Amounts Classified as Substandard or Below ⁽²⁾	Allowance
	Won Currency	Foreign Currency								
(in billions of Won)										
Hyundai Engineering & Construction (A)		(Won) 9	(Won) 261	(Won) 10	(Won) 38		(Won) 318	(Won) 22		
SK Networks (C)	(Won) 126	17	34	66	36		279	5		(Won) 30
Daewoo Electronics Corp. ⁽³⁾	50	41	7		20		118	50		15
Hyundai Corporation (CCC)		65	30				95			17
Daewoo Precision Industries ⁽³⁾	60	2	13		3		78			
Ssangyong Corporation (B-)	14	2	21		13		50			2
Saehan Media (C)		29			11		40	24		6
Daerim Corporation (C)	11	6	18		1		35	11	(Won) 16	
Saehan Industries (C)		9	16				25			
Shinwoo Co., Ltd. (C)		9	2	9	3		24	6		
Total	(Won) 261	(Won) 189	(Won) 402	(Won) 85	(Won) 125		(Won) 1,062	(Won) 118	(Won) 16	(Won) 70

(1) Credit rating as of December 31, 2005, from one of the following Korean credit agencies: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.

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

(3) 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,													
2001			2002			2003			2004			2005	
Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
(in billions of Won)													

included in non-accrual ue loans which are as troubled debt ings	(Won) 3,476	(Won) 3,476	(Won) 1,286	(Won) 2	(Won) 1,288	(Won) 363	(Won) 3	(Won) 366	(Won) 44	(Won) 3	(Won) 366	(Won) 314
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For 2005, interest income that we would have recorded under the original contract terms of restructured loans amounted to (Won)40 billion, of which we reflected (Won)25 billion as interest income for 2005.

Potential Problem Loans

As of December 31, 2005, we had (Won)2,126 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 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. As of December 31, 2005, such assets, which consisted of debt securities, had an aggregate book value and market value of (Won)85 billion.

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

	As of December 31,				
	2001	2002	2003	2004	2005
	(in billions of Won, except percentages)				
Total non-performing loans	(Won) 6,015	(Won) 3,576 ⁽¹⁾	(Won) 2,594 ⁽²⁾	(Won) 2,071 ⁽³⁾	(Won) 1,369 ⁽⁴⁾
As a percentage of total loans	9.8%	4.5%	2.9%	2.3%	1.3%

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

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

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

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

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,										
2001		2002		2003		2004		2005		
Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
(in billions of Won, except percentages)										
Domestic										
Corporate										
Commercial and industrial										
(Won) 3,226	53.6%	(Won) 1,768	49.5%	(Won) 1,046	40.3%	(Won) 1,118	54.0%	(Won) 802	58.6%	
Lease financing	288	4.8								
Trade financing	648	10.8	463	12.9	202	7.8	228	11.0	76	5.6
Other commercial	1,334	22.2	751	21.0	193	7.4	92	4.5	59	4.3
Total corporate	5,496	91.4	2,982	83.4	1,441	55.5	1,438	69.5	937	68.4
Consumer										
General purpose household ⁽¹⁾										
Mortgage	134	2.2	145	4.0	302	11.6	383	18.5	281	20.5
Mortgage	3		10	0.3	94	3.6	115	5.6	97	7.1
Total consumer	137	2.2	155	4.3	396	15.2	498	24.1	378	27.6
Credit cards	191	3.2	352	8.5	673	26.0	126	6.1	46	3.4
Total domestic	5,824	96.8	3,439	96.2	2,509	96.7	2,062	99.7	1,361	99.4
Foreign										
Corporate										
Commercial and industrial										
Lease financing	191	3.2	135	3.8	84	3.3	9	0.3	8	0.7
Trade financing			2							
Other commercial										
Total corporate	191	3.2	137	3.8	84	3.3	9	0.3	8	0.7
Consumer										
Total foreign	191	3.2	137	3.8	84	3.3	9	0.3	8	0.7
Total non-performing loans	(Won) 6,015	100.0%	(Won) 3,576	100.0%	(Won) 2,594	100.0%	(Won) 2,071	100.0%	(Won) 1,369	100.0%

⁽¹⁾ Includes home equity loans.

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Top 20 Non-Performing Loans. As of December 31, 2005, our 20 largest non-performing loans accounted for 15.9% 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	Industry
(in billions of Won)				
Borrower A	(Won) 54	(Won) 17		Retail and wholesale
Borrower B	26	5	(Won) 11	Construction
Borrower C	21			Real Estate, Leasing and Service
Borrower D	16		10	Manufacturing
Borrower E	14	6	7	Manufacturing
Borrower F	11		10	Manufacturing
Borrower G	10			Manufacturing
Borrower H	8	2	7	Hotel and Leisure
Borrower I	7		7	Real Estate, Leasing and Service
Borrower J	6		5	Real Estate, Leasing and Service
Borrower K	6			Publishing
Borrower L	5	1	4	Hotel and Leisure
Borrower M	5	2	4	Hotel and Leisure
Borrower N	5	3		Publishing
Borrower O	5	1	4	Hotel and Leisure
Borrower P	4	2	4	Real Estate, Leasing and Service
Borrower Q	4	2	2	Real Estate, Leasing and Service
Borrower R	4		3	Manufacturing
Borrower S	3	1	3	Hotel and Leisure
Borrower T	3	1	2	Real Estate, Leasing and Service
Total	(Won) 217	(Won) 43	(Won) 83	

Non-Performing Loan Strategy

One of our goals is to improve our asset quality, in part by reducing our non-performing loans. We are in the process of integrating 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 a unit that is responsible for managing non-performing loans. At Woori Bank, for example, the Credit Management and Collection Center generally oversees the process for resolving non-performing loans transferred to it 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;

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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 2003, 2004 and 2005, we foreclosed on collateral we obtained with respect to loan balances representing approximately 1% 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.

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

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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, more recently, 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:

Purchaser	Year Ended December 31,								
	2003			2004			2005		
	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) 515	(Won) 357		(Won) 767	(Won) 513		(Won) 339	(Won) 223	
Joint venture special purpose companies	1,230	242							
Others	1,270	602	(Won) 40	1,073	816	(12)	2,709	1,319	(45)
Total	(Won) 3,015	(Won) 1,201	(Won) 40	(Won) 1,840	(Won) 1,329	(12)	(Won) 3,048	(Won) 1,542	(45)

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, 2005, we and our predecessor entities sold an aggregate of (Won)8,891 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, 2005, the aggregate principal amount of loans subject to these repurchase rights was (Won)17 billion. As of that date, we recorded a liability of (Won)6 billion relating to those loans, representing our estimated obligation to make repurchases.

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. Much like a previous joint venture we had entered into with an affiliate of Lehman Brothers, 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.

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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 Capital Advisors Asset Management to CRT9 Yugen Kaisha pursuant to a share purchase agreement. Woori Capital Advisors Asset Management was subsequently renamed Woori SB Asset Management and will manage the substandard or below loans purchased from us by the special purpose company and receive 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,											
(in billions of Won, except percentages)											
	2001		2002		2003		2004		2005		
Domestic											
Corporate											
Commercial and industrial	(Won) 2,085	48.2%	(Won) 1,724	45.7%	(Won) 926	32.7%	(Won) 997	55.2%	(Won) 915	60.0%	
Lease financing	187	4.3	13	0.4	2	0.1	3	0.2	1	0.1	
Trade financing	638	14.8	542	14.4	222	7.8	209	11.5	85	5.6	
Other commercial	919	21.3	528	14.0	140	4.9	92	5.1	67	4.4	
Total corporate	3,829	88.6	2,807	74.5	1,290	45.5	1,301	72.0	1,068	70.1	
Consumer											
General purpose household ⁽¹⁾	70	1.6	117	3.1	232	8.2	228	12.6	340	22.3	
Mortgage	3	0.1	5	0.1	29	1.0	45	2.5	2	0.1	
Total consumer	73	1.7	122	3.2	261	9.2	273	15.1	342	22.4	
Credit cards	219	5.0	656	17.4	1,120	39.6	168	9.3	64	4.2	
Total domestic	4,121	95.3	3,585	95.1	2,671	94.3	1,742	24.4	1,474	96.7	
Foreign											
Corporate											
Commercial and industrial	139	3.2	184	4.9	161	5.7	45	2.5	50	3.2	
Lease financing							15	0.9			
Trade financing	63	1.5	1				1	0.1	1	0.1	
Other commercial											
Total corporate	202	4.7	185	4.9	161	5.7	61	3.5	51	3.3	
Consumer					1		3	0.1			
Total foreign	202	4.7	185	4.9	162	5.7	64	3.6	51	3.3	
Total allowance for loan losses	(Won) 4,323	100.0%	(Won) 3,770	100.0%	(Won) 2,834	100.0%	(Won) 1,806	100.0%	(Won) 1,525	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,				
	2001	2002	2003	2004	2005
	(in billions of Won)				
Balance at the beginning of the period	(Won) 6,457	(Won) 4,323	(Won) 3,770	(Won) 2,834	(Won) 1,806
Provision for credit losses	1,114	1,247	2,313	652	308
Allowance relating to credit-related commitments transferred to loans	316	168	271	275	58
Allowance relating to loans acquired in connection with acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea		43	3		
Gross charge-offs					
Domestic					
Corporate					
Commercial and industrial	(700)	(303)	(676)	(357)	(173)
Lease financing		(3)	(9)	(1)	
Trade financing	(387)	(108)	(231)	(26)	(34)
Other commercial	(1,363)	(319)	(191)	(63)	(54)
Total corporate	(2,450)	(733)	(1,108)	(447)	(261)
Consumer					
General purpose household ⁽¹⁾	(33)	(16)	(84)	(138)	(119)
Mortgage		(1)	(1)	(2)	(6)
Total consumer	(33)	(17)	(85)	(140)	(125)
Credit cards	(236)	(475)	(1,384)	(1,051)	(183)
Total domestic	(2,719)	(1,225)	(2,577)	(1,644)	(569)
Foreign	(235)	(76)	(159)	(1)	(3)
Allowance relating to loans sold	(626)	(964)	(1,653)	(613)	(276)
Total gross charge-offs	(3,580)	(2,265)	(4,388)	(2,258)	(848)
Recoveries:					
Domestic					
Corporate					
Commercial and industrial	9	257	539	147	78
Lease financing		9		1	1
Trade financing	3	32	50	1	13
Other commercial	2	11	237	65	18
Total corporate	14	309	826	214	110
Consumer					
General purpose household	7	10	2	2	10
Mortgage and home equity	1				
Total consumer	8	10	2	2	10
Credit cards	2	61	17	99	98
Total domestic	24	380	845	315	218

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Foreign	1	3	2	7	4
Total recoveries	25	383	847	322	222
Net charge-offs	(3,555)	(1,882)	(3,542)	(1,936)	(626)
Allowance related to loans transferred to held-for-sale		(141)			
Allowance relating to disposal of Woori Securities					(15)
Foreign exchange translation effects	(9)	12	18	(19)	(6)
Balance at the end of the period	(Won) 4,323	(Won) 3,770	(Won) 2,834	(Won) 1,806	(Won) 1,525
Ratio of net charge-offs during the period to average loans outstanding during the period ⁽²⁾	6.84%	3.08%	4.17%	2.16%	0.65%

(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, an application for a charge-off must be submitted by a branch to the Credit Management and Collection Center 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, we must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, we refer the approval of the charge-off by the Credit Management and Collection Center to our 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 we receive approval from the Financial Supervisory Service, we must also obtain approval from our 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 Supervisory 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 of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)300 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 Law Concerning Credit Restoration and Bankruptcy took effect and replaced the Individual Debtor Rehabilitation Law. Under the Law Concerning Credit Restoration and Bankruptcy, 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.

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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, 2005, we owned (Won)3,044 billion of KDIC debentures, which represent 9.5% 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 with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and

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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. Pursuant to an amendment to the Bank Act which became effective in July 2002, 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 the 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 five types of securities investments we hold:

<u>Category</u>	<u>Classification</u>	<u>Valuation Method</u>
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.

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<u>Category</u>	<u>Classification</u>	<u>Valuation Method</u>
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.
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 retained 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.

Table of Contents*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,					
	2003		2004		2005	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)					
Trading securities						
Equity securities	(Won) 271	(Won) 271	(Won) 211	(Won) 211	(Won) 293	(Won) 293
Beneficiary certificates	307	307	93	93	93	93
Debt securities						
Korean treasury securities and government agency securities	1,823	1,823	3,521	3,521	1,726	1,726
Debt securities issued by financial institutions	501	501	750	750	529	529
Corporate debt securities	920	920	993	993	1,432	1,432
Total Trading	3,822	3,822	5,568	5,568	4,073	4,073
Available-for-sale securities						
Equity securities	280	280	401	401	640	640
Beneficiary certificates	391	391	57	57	365	365
Debt securities						
Korean treasury securities and government agency securities	6,618	6,618	6,358	6,358	11,105	11,105
Debt securities issued by financial institutions	2,248	2,248	1,989	1,989	2,453	2,453
Corporate debt securities	2,757	2,757	3,382	3,382	3,585	3,585
Mortgage backed securities	72	72	65	65	92	92
Debt securities issued by foreign governments	42	42	50	50	49	49
Total Available-for-sale	12,408	12,408	12,302	12,302	18,289	18,289
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	8,466	8,803	7,567	7,885	8,188	8,159
Debt securities issued by financial institutions	806	808	561	567	1,274	1,268
Corporate debt securities	490	492	213	247	73	82
Mortgage backed securities			22	22	48	48
Debt securities issued by foreign governments	39	40	43	43	55	56
Total Held-to-maturity	9,801	10,143	8,406	8,764	9,638	9,613
Total securities	(Won) 26,031	(Won) 26,373	(Won) 26,278	(Won) 26,636	(Won) 32,000	(Won) 31,975

Table of Contents*Maturity Analysis*

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2005:

As of December 31, 2005

	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	777	4.58%	779	4.22%	140	4.76%	30	3.96%	1,726	4.42%
Debt securities issued by financial institutions	457	4.27	33	4.93			39	4.06	529	4.29
Corporate debt securities	1,424	4.27			8	4.48			1,432	4.27
Total	(Won) 2,658	4.36	(Won) 812	4.25	(Won) 148	4.74%	(Won) 69	4.02	(Won) 3,687	4.34
Available-for-sale securities										
Korean treasury securities and government agency	6,187	4.09	4,906	4.63	12	5.47			11,105	4.33
Debt securities issued by financial institutions	1,751	4.02	606	4.77	56	5.31	40	4.69	2,453	4.25
Corporate debt securities	1,557	4.89	1,767	4.98	124	5.03	137	2.47	3,585	4.85
Mortgage backed securities	44	4.39	32	3.94		6.17	16	4.95	92	4.34
Debt securities issued by foreign governments	22	4.34	24	4.18			3	3.89	49	4.24
Total	(Won) 9,561	4.21	(Won) 7,335	4.72	(Won) 192	5.14	(Won) 196	3.15	(Won) 17,284	4.43

Held-to-maturity securities

Korean treasury securities and government agencies	3,138	4.34	5,012	4.61	38	4.35	7.28	8,188	4.50	
Debt securities issued by financial institutions	969	4.37	285	4.51	20	7.70		1,274	4.45	
Corporate debt securities	20	9.95	53	9.48				73	9.61	
Mortgage backed securities			44	4.43			4	5.41	48	4.52
Debt securities issued by foreign governments	18	10.23	20	9.98	17	4.23		55	8.30	
Total	(Won) 4,145		(Won) 5,414		(Won) 75	5.23	(Won) 4	5.41	(Won) 9,638	4.45

⁽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).

Table of Contents*Risk Concentrations*

As of December 31, 2005, 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, 2005, our stockholders' equity was (Won)8,321 billion.

	As of December 31, 2005	
	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
KDIC	(Won) 3,044	(Won) 3,032
The Bank of Korea	11,510	11,505
Korean government	4,299	4,295
The Korea Development Bank	1,158	1,154
Total	(Won) 20,011	(Won) 19,986

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 75.4% of our total funding as of December 31, 2003, 76.8% of our total funding as of December 31, 2004 and 75.0% of our total funding as of December 31, 2005.

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, 2005, approximately 90.7% of our total funding was denominated in Won.

Table of Contents*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,							
	2002		2003		2004		2005	
	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) 3,020		(Won) 2,814		(Won) 3,533		(Won) 3,704	
Interest-bearing	18,862	1.15%	20,443	0.67%	19,498	0.54%	21,271	0.20%
Time deposits								
Certificates	626	4.79	1,716	4.37	4,705	4.12	6,931	3.73
Other time deposits	41,296	5.09	48,159	4.52	50,936	3.83	52,277	3.63
Savings deposits	7,514	3.70	9,178	3.20	10,418	2.77	9,794	2.77
Mutual installment deposits ⁽²⁾	944	7.63	959	6.26	859	4.77	761	4.05
Average total deposits	(Won) 72,262	3.74	(Won) 83,269	3.30	(Won) 89,949	2.87	(Won) 94,738	2.62

⁽¹⁾ Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori Capital Advisors Asset Management (which was renamed Woori SB Asset Management in February 2006), Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

⁽²⁾ 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, 2005, 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, 2005

	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	(Won) 2,441	(Won) 12,635	(Won) 16	(Won) 15,092
After three but within six months	3,747	6,371	5	10,123
After six but within 12 months	1,265	13,338	10	14,613
After 12 months	221	1,347	21	1,589
Total	(Won) 7,674	(Won) 33,691	(Won) 52	(Won) 41,417

Table of Contents*Long-Term Debt*

The aggregate amount of contractual maturities of all long-term debt at December 31, 2005 was as follows:

	Amount
	(in billions of Won)
Due in 2006	(Won) 3,515
Due in 2007	5,229
Due in 2008	6,249
Due in 2009	1,585
Due in 2010	2,538
Thereafter	2,762
Gross long-term debt	21,878
Less: discount	(28)
Total long-term debt, net	(Won) 21,850

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,					
	2003		2004		2005	
	(in billions of Won)					
Call money						
Year-end balance	(Won)	412	(Won)	689	(Won)	326
Average balance ⁽¹⁾		1,077		1,000		934
Maximum balance		1,741		1,107		2,422
Average interest rate ⁽²⁾		3.25%		3.00%		3.08%
Year-end interest rate		1.10%~4.00%		0.20%~4.70%		0.6%~4.39%
Borrowings from the Bank of Korea ⁽³⁾						
Year-end balance	(Won)	1,670	(Won)	1,230	(Won)	1,466
Average balance ⁽¹⁾		1,307		1,292		1,258
Maximum balance		1,433		1,373		1,710
Average interest rate ⁽²⁾		2.52%		2.32%		2.00%
Year-end interest rate		1.32%~2.50%		2.00%		2.00%~3.00%
Other short-term borrowings ⁽⁴⁾						
Year-end balance	(Won)	7,675	(Won)	7,885	(Won)	8,443
Average balance ⁽¹⁾		8,024		8,328		9,194

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Maximum balance	11,186	9,422	9,604
Average interest rate ⁽²⁾	3.49%	2.56%	2.92%
Year-end interest rate	0.37%~4.68%	0.20%~6.00%	0.00%~9.58%

(1) Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori Capital Advisors Asset Management (which was renamed Woori SB Asset Management in February 2006), Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.

(2) 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, 2003, 2004 and 2005.

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 May 31, 2005, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Supervisory Commission and the Financial Supervisory Service.

The Financial Supervisory Commission exerts direct control over financial holding companies pursuant to the Financial Holding Company Act. Among other things, the Financial Supervisory 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 Supervisory 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 Supervisory 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 Supervisory Commission before acquiring control of another company. In addition, the Financial Supervisory 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 Supervisory 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.

All financial holding companies must have, together with their subsidiaries, a minimum requisite capital ratio of 100%, as defined by the Financial Supervisory Commission. Requisite capital ratio is defined as the ratio of net total equity capital as a percentage of requisite capital.

Net total equity capital is defined as the sum of:

(1) in the case of a financial institution subsidiary (including, for example, banks, merchant banks and securities companies), other than a financial holding company's indirect subsidiary that is consolidated to a direct subsidiary of a financial holding company, that is subject to minimum capital requirements under the Financial Supervisory Commission regulations, the actual equity capital maintained by that financial institution; and

(2) in the case of a financial holding company or a financial holding company's financial institution subsidiary, other than a financial holding company's indirect subsidiary that is consolidated to a direct subsidiary of a financial holding company, that has no minimum capital requirements under the Financial Supervisory Commission regulations, the total stockholders' equity as recorded on that financial holding company's balance sheet less (x) intangible assets and (y) deferred tax assets, if any;

less the sum of:

(1) the book value of investments among a financial holding company and its direct and indirect subsidiaries, if any; and

(2) the book value of investments among direct and indirect subsidiaries, if any.

Requisite capital means the sum of:

(1) in the case of a financial institution subsidiary, other than a financial holding company's indirect subsidiary that is consolidated to a direct subsidiary of a financial holding company, that is subject to minimum capital requirements under the Financial Supervisory Commission regulations, the minimum equity capital amount necessary to meet such requirements;

(2) in the case of a financial holding company's financial institution subsidiary that has no minimum capital requirements under Financial Supervisory Commission regulations, 8% of its total assets on its balance sheet (including off-balance sheet assets, if any) (since it is required under the relevant regulation); and

(3) in the case of a financial holding company, 8% of its total assets on its balance sheet (including off-balance sheet assets, if any, but excluding the book value of investments in and financial supports to its direct and indirect subsidiaries, if any).

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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 105% 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 85% on a non-consolidated basis;

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.

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;

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

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

(4) in case of 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 Supervisory 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.

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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 the shareholder (together with the persons who have a special relationship with the 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

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 Supervisory 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 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 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 Supervisory Commission.

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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

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

Disclosure of Management Performance

For the purpose of protecting the depositors and investors in the subsidiaries of financial holding companies, the Financial Supervisory 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.

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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

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(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 Supervisory 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 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 Finance and Economy; 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 Supervisory Commission or the submission of a report to the Financial Supervisory 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

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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 Supervisory 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

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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 Supervisory 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 Supervisory 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.

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

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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.

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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 Supervisory Commission requirements that have been formulated based on Bank of International Settlements (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. As a result, for certain home mortgage loans extended after November 13, 2002, Korean banks must apply a risk-weight ratio of 60% if either of the following two conditions are satisfied, and a risk-weight ratio of 70% if both conditions are satisfied:

(1) if the home mortgage loans are overdue for at least 30 consecutive days as of the date of calculating the bank's BIS capital adequacy ratio, or there were at least 30 overdue days during the one year period preceding the date on which the bank's BIS capital adequacy ratio is calculated; and

(2) the borrower's debt ratio (which is the ratio of the borrower's total outstanding borrowings, including borrowings from other financial institutions, to the borrower's annual income) exceeds 250%.

For all other home mortgage loans, the bank must apply a 50% risk-weight ratio.

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:

0.5% of normal credits (or 0.75% in the case of normal credits comprising loans to individuals and households, and 1% in the case of normal credits comprising outstanding credit card receivables and card loans);

2% of precautionary credits (or 8% in the case of precautionary credits comprising loans to individuals and households, and 12% 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 the recent amendment to the Regulation on the Supervision of the Banking Business, banks must maintain allowances for credit losses in respect of their outstanding non-used credit lines as of the settlement date in an aggregate amount covering not less than:

0.5% of the non-used credit line, in the case of normal credits comprising loans to business entities;

0.75% of the non-used credit line, in the case of normal credits comprising loans to individuals and households; and

1% of the non-used credit line (excluding the non-used credit lines of credit card members who have not used their credit cards for the past one year), in the case of normal credits comprising credit card loans.

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

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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 Supervisory 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.

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:

5% of average balances for Won currency demand deposits outstanding;

1% 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 5% 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

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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.

Recent amendments to the Bank Act, which became effective on July 28, 2002, strengthened 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

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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 amendments, 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.

Interest Rates

Korean banks generally depend on deposits as their primary funding source. There are no legal controls on interest rates on loans 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 Supervisory 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;

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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;

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 Supervisory 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 Supervisory 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 in the second quarter of 2002:

<u>Asset Quality Classification</u>	Provisioning Ratio on Retail Household Loans	
	Before	Current
Normal	0.5% or above	0.75% or above
Precautionary	2.0% or above	8.0% or above
Substandard	20.0% or above	20.0% or above
Doubtful	50.0% 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 Supervisory Commission and the Financial Supervisory Service implemented regulations designed to reduce the rate of increase in these loans, including through raising the minimum provisioning requirements for new loans secured by housing located in areas of wide-spread real property speculation. Effective from the fourth

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quarter of 2002, the Financial Supervisory Commission and the Financial Supervisory Service also raised the minimum provisioning requirements for household loans classified as precautionary from 2.0% to 8.0%. In a further effort to curtail extension of new or refinanced loans secured by housing, the Financial Supervisory Commission and the Financial Supervisory Service subsequently:

reduced the average loan-to-value ratio (the aggregate principal amount of credit over the approval value of collateral) that Korean commercial banks must maintain for new loans secured by housing located nationwide to below 60%; and

increased risk-weights for loans secured by housing meeting certain criteria in connection with the capital adequacy calculation for commercial banks.

More recently, on November 8, 2002, the Financial Supervisory Commission and the Financial Supervisory Service issued guidelines that:

require Korean commercial banks to implement stronger internal control systems and stricter credit review and approval policies with respect to loans secured by housing;

introduce sharing of information on multiple housing loans to a single borrower within the financial industry;

require Korean commercial banks to appoint two to three qualified market value appraisal institutions and to use the lowest of the appraisal valuations; and

discourage the use of incentive-based compensation systems by Korean commercial banks.

On October 29, 2003, the Financial Supervisory Commission announced more stringent guidelines requiring Korean commercial banks to maintain loan-to-value ratios equal to or less than 40% for new loans secured by real estate located in areas of widespread real property speculation. Furthermore, on March 30, 2006, the Financial Supervisory Commission implemented new guidelines requiring financial institutions (including Korean commercial banks) to impose on their customers debt-to-income ratios equal to or less than 40% for new loans secured by real estate located in areas of wide-spread property speculation. Such guidelines came into effect from April 5, 2006. The current minimum provisioning requirements for new loans secured by housing located in areas of wide-spread real property speculation, with respect to the portion of the new loan that exceeds the loan-to-value ratio of 70%, is 1.0% for normal loans and 10.0% for precautionary loans.

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 Supervisory Commission; or

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

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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 Supervisory 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 Supervisory 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 Supervisory 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 Supervisory 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 Supervisory 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

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Under the Korean Foreign Exchange Transaction Law, each of a bank's net overpurchased and oversold positions may not exceed 30% of its shareholders' equity as of the end of the prior month.

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Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Finance and Economy to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Supervisory 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 Supervisory 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.

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.

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Credit Card Business

General

In order to enter the credit card business, a bank must register with the Financial Supervisory Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on January 27, 2005. A registered bank engaging in the credit card business is regulated by the Financial Supervisory 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.

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 the 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 relatives' 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 the 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.

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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 Supervisory 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;

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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.

Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act issued in December 2003, a registered bank engaging in the credit card business must maintain an aggregate quarterly average outstanding lending balance to credit card holders (including cash advances and credit card loans, but excluding restructured loans and revolving cash advances) no greater the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume; provided that, in the case that any bank engaged in the credit card business was unable to meet this lending ratio as of December 31, 2003, such bank would have been granted an extended compliance period until December 31, 2007 during which to achieve such lending ratio. Any bank availing itself of such extended compliance period was also required to submit to the Financial Supervisory Commission, no later than January 31, 2004, a detailed plan setting forth how such bank intended to achieve compliance by December 31, 2007.

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.

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;

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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;

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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.

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 comes into effect on January 1, 2007 with respect to companies with a total asset value of less than (Won)2 trillion, and will apply retroactively to all applicable claims arising out of acts committed since its enactment.

An amendment of the new law delays its effectiveness until December 31, 2006, with respect to claims against companies and their auditors in cases where such companies take 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 Supervisory 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 Supervisory Commission to commence a primary 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 Supervisory Commission. A securities company must also obtain permission from the Financial Supervisory Commission to merge with any other entity or transfer all or a part of its business.

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If the Financial Supervisory 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 Supervisory 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 Supervisory 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:

$$\text{Net operating equity ratio} = (\text{net operating equity} / \text{total risk}) \times 100$$

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

$$\text{Net operating equity} = \text{net assets (total assets - total liabilities) - total deductible items} + \text{total creditable items}$$

$$\text{Total risk} = \text{market risk} + \text{counterparty risk} + \text{basic risk} + \text{credit concentration risk} - \text{risk offsetting factor}$$

The regulations require that securities companies maintain their net operating equity ratio at a level equal to or higher than 150% at the end of each half of their fiscal year.

Other Provisions on Financial Soundness

The Korean Securities and Exchange Act, the Enforcement Decree of the Korean Securities and Exchange Act and Financial Supervisory 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.

A securities company may invest in shares, bonds (whether listed or unlisted) and stock price index futures and options, although it may not enter into cross-border financial futures, swaps, options or other derivatives transactions without obtaining prior approval from the Bank of Korea. However, a securities company confirmed by the Financial Supervisory Commission as satisfying certain conditions set forth in the Foreign Exchange

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Transaction Regulations is permitted to engage in forward exchange, foreign currency swap, currency swap, currency option, interest rate swap, interest rate option or other similar derivatives transactions (except for derivatives transactions not related to foreign exchange and credit linked derivatives transactions) in which the counterparty (other than individual) is an institutional investor, a Stock Market Division of the Korea Exchange listed company, a KOSDAQ Market Division of the Korea Exchange registered company or a non-resident without obtaining an approval from the Bank of Korea. Furthermore, a securities company licensed to engage in over-the-counter derivatives transactions may enter into Won currency derivatives transactions and securities derivatives transactions as well as the aforementioned derivatives transactions without obtaining an approval from the Bank of Korea, except that such securities company is not permitted to engage in credit linked derivatives transactions.

Business Conduct Rules

Effective from August 2001, the Financial Supervisory 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 Supervisory Commission within 45 days from the end of each quarter.

Table of Contents**Item 4C. Organizational Structure**

As a financial holding company, we conduct substantially all of our operations through our subsidiaries. The following chart provides an overview of our current structure, including certain significant subsidiaries and our direct and indirect ownership of each such subsidiary:

Our largest subsidiary is Woori Bank, the assets of which represented approximately 76.8% of our total assets as of December 31, 2005. 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, 2005 (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, 2005		
	Total Assets ⁽¹⁾		
	Amount	% of Total	Net Income (Loss) ⁽²⁾
	(in billions of Won, except percentages)		
Subsidiary			
Woori Bank	(Won) 119,027	76.8%	(Won) 758
Kyongnam Bank	13,100	8.5	61
Kwangju Bank	10,872	7.0	55
Others	11,916	7.7	932
Total	(Won) 154,915	100.0%	(Won) 1,806

⁽¹⁾ After allocating eliminations of (Won)11,718 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)1,851 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.

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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 enterprise and individuals in Korea. As of December 31, 2005, Woori Bank was the second-largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2005, Woori Bank had more than 14 million customers, with 741 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, 2005, Kyongnam Bank had approximately 1.7 million customers, with 128 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, 2005, Kwangju Bank had approximately 1.8 million customers, with 118 branches throughout southwestern Korea and three 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, 2005:

<u>Subsidiary</u>	<u>Percentage of Ownership⁽¹⁾</u>	<u>Total Assets</u>	<u>Stockholders Equity</u>	<u>Operating Revenue</u>	<u>Net Income (Loss)</u>
(in millions of (Won))					
Woori Asset Management Co., Ltd. ⁽²⁾	100.0%	(Won) 263,581	(Won) 115,480	(Won) 15,421	(Won) 59,002
Woori Private Equity	100.0	9,858	9,797	24	(203)
Woori F&I Co., Ltd.	100.0	215,949	11,576	1,134	3,473

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Woori Finance Information System Co., Ltd.	100.0	65,284	60,847	1,470	4,636
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- (1) Including both direct and indirect ownership.
- (2) 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. 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.

Table of Contents**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:

<u>Type of Facility/Building</u>	<u>Location</u>	<u>Area</u> (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, 2005, we had a network of 987 banking branches in Korea. With respect to Woori Bank, approximately 230 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 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, 2005 was (Won)1,826 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

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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. Our consolidated financial statements include the accounts of Woori Finance Holdings and its predecessor entities acquired by the KDIC during 1998 and 2000. 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.

Table of Contents***Acquisitions and Dispositions***

The KDIC established our company as a financial holding company in March 2001 to consolidate the Korean government's interests in four commercial banks, one merchant bank and a number of other financial institutions. As a financial holding company, we conduct substantially all of our operations through our subsidiaries. For a more detailed discussion of the history of our establishment, see *History and Development of the Company*.

On September 30, 1998, the KDIC acquired the banking operations of the predecessor banks of our principal subsidiary, Woori Bank. The KDIC subsequently established Hanaro Merchant Bank (since renamed Woori Investment Bank), effective November 3, 2000, to restructure substantially all of the assets and liabilities of four failed merchant banks that the KDIC had previously acquired, which were transferred to Hanaro Merchant Bank effective November 21, 2000. The KDIC also acquired Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, effective December 30, 2000. We have accounted for all such acquisitions under the purchase method of accounting.

We recorded the assets and liabilities of Woori Bank's predecessor banks, as well as those of each of Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, at fair value and recorded the amount by which the fair value of the acquired liabilities exceeded the fair value of the acquired identifiable assets as deficit equity, which is presented as a reduction of additional paid-in capital. In connection with the acquisition of Woori Bank's predecessor banks in 1998, we recorded deficit equity of (Won)3,093 billion. In connection with the acquisitions of Kyongnam Bank, Kwangju Bank and Peace Bank of Korea in 2000, we recorded deficit equity of (Won)685 billion.

In connection with these acquisitions, we also recorded a core deposit intangible asset, which represents the fair value of the acquired base of demand and savings deposit accounts of the acquired entities which we can expect to maintain for an extended period because we have generally stable customer relationships. We have been amortizing this intangible asset in proportion to our estimated run-off of depositors on an accelerated basis over a weighted average life of approximately eight years. We recorded amortization expense of (Won)68 billion in 2003, (Won)41 billion in 2004 and (Won)14 billion in 2005, relating to the core deposit intangible asset.

During 2002, we sold our indirect subsidiary, Hanvit Leasing, and its three subsidiaries to third parties for an aggregate sale price of (Won)119 billion. We accounted for these sales as discontinued operations in 2002, and reclassified the assets and liabilities to be disposed of as held for sale in 2001. At the time of these sales, the (Won)534 billion carrying amount of the assets sold exceeded the (Won)511 billion carrying amount of the liabilities sold by (Won)23 billion. We recorded (Won)96 billion as gain on disposal of discontinued components in our consolidated income statement for 2002. We also recognized (Won)929 billion of income from Hanvit Leasing and its subsidiaries as income from operations of discontinued components in our consolidated income statement for 2002. This income related primarily to gain on forgiveness of outstanding debt of Hanvit Leasing by its creditors in connection with its debt restructuring in 2002. In addition, during 2002, Woori Investment Bank entered into an agreement to sell one of its subsidiaries, which was subsequently sold in February 2003. In connection with that sale, we recorded (Won)7 billion as loss on disposal of discontinued components and recognized (Won)3 billion of income as income from operations of discontinued components in our consolidated income statement for 2002.

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

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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. As a result of the merger, we currently own a 35.1% voting interest in Woori Investment & Securities. As of December 31, 2005, Woori Investment & Securities had consolidated total assets of (Won)9 trillion, consolidated total liabilities of (Won)7 trillion and consolidated total shareholders' equity of (Won)2 trillion, on a Korean GAAP basis. For the nine-month period ended on December 31, 2005, Woori Investment & Securities generated consolidated revenues of (Won)1,107 billion and consolidated net income of (Won)200 billion, on a Korean GAAP basis.

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. As part of the Korean government's structural reform program, which stemmed from the economic difficulties in Korea in 1997 and 1998, the government made significant changes to the regulations governing financial institutions, including changes in loan classification and loss provisioning guidelines, Korean GAAP, securities valuation methods and liquidity and minimum capital requirements.

Financial and economic conditions generally improved in Korea from 1999 to 2005. The general level of interest rates decreased, consumer spending and consumer demand for credit cards and other financial products increased, the overall level of non-performing corporate loans decreased and overall profitability increased. Nonetheless, certain large corporations, including those to which we have credit and other exposure, are still experiencing significant financial difficulties. Furthermore, substantial growth in lending to small- and medium-sized enterprises may lead to increasing delinquencies and a deterioration in overall asset quality. In 2005, on a Korean GAAP basis, we recorded charge-offs of (Won)212 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of (Won)191 billion in 2004. 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 addition, the significant increase in consumer and credit card debt has led to a deterioration in the asset quality of the consumer lending and credit card portfolios of Korean financial institutions. In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea made significant investments and engaged in aggressive marketing in these areas, leading to substantially increased competition in the consumer finance and credit card segments. However, the rapid growth in consumer credit has led to increasing delinquencies, loan loss provisions, non-performing loans and charge-offs. In 2005, we recorded charge-offs of (Won)183 billion and a reversal of provisions of (Won)63 billion in respect of our credit card portfolio, compared to charge-offs of (Won)1,093 billion and provisions of (Won)43 billion in 2004. We also recorded charge-offs of (Won)125 billion and provisions of (Won)166 billion in respect of our consumer loan portfolio in 2005, compared to charge-offs of (Won)140 billion and provisions of (Won)145 billion in 2004. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

As a result of growing concerns regarding the high levels of consumer borrowing and credit card usage in Korea and the deterioration in the asset quality of the consumer lending and credit card portfolios of Korean financial institutions, the Korean government has implemented various changes to the regulations governing consumer loans and credit card operations generally. See Item 3D. Risk Factors Risks relating to government regulation and policy and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

As a result of the developments in the Korean 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, recent large-scale natural disasters in certain parts of the world and tensions with North Korea, the economic outlook for the financial services sector in Korea in 2006 and for the foreseeable future is uncertain.

Table of Contents***New Basel Capital Accord***

In December 2004, the Financial Supervisory Service announced that it would implement Basel II in Korea by the end of 2007. The implementation of Basel II will have a substantial effect 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 will require our commercial banking subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements, while Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. Since Woori Bank will be implementing an internal ratings-based approach for the first time in connection with its implementation of Basel II, its internal ratings-based approach may require a significant increase in its capital requirements, which will 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, 2001	June 30, 2002	Dec. 31, 2002	June 30, 2003	Dec. 31, 2003	June 30, 2004	Dec. 31, 2004	June 30, 2005	Dec. 31, 2005
KOSPI	693.70	742.72	627.55	669.93	810.71	785.79	895.92	1,008.16	1,379.37
(Won)/US\$ exchange rates ⁽¹⁾	(Won) 1,313.5	(Won) 1,205.0	(Won) 1,186.3	(Won) 1,196.0	(Won) 1,192.0	(Won) 1,156.0	(Won) 1,035.1	(Won) 1,034.5	(Won) 1,010.0
Corporate bond rates ⁽²⁾	7.2%	6.7%	5.8%	5.6%	5.7%	5.0%	3.9%	4.4%	5.7%
Treasury bond rates ⁽³⁾	5.9%	5.7%	5.1%	4.2%	4.8%	4.2%	3.3%	4.0%	5.1%

⁽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.

Change in Accounting Policy

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 deposits were previously reported as restricted cash. See Item 5B. Liquidity and Capital

Resources Financial Condition Assets and Note 1 of the notes to our consolidated financial statements.

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

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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, 2005 included a total allowance for credit losses of (Won)1,653 billion as of that date (including allowances of (Won)128 billion with respect to credit-related commitments). Our total loan charge-offs, net of

recoveries, amounted to (Won)626 billion and our provision for credit losses amounted to (Won)269 billion (which reflects a reversal of provision for credit-related commitments of (Won)39 billion) in 2005.

Table of Contents***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 2005, approximately 34.6%, or (Won)2,154 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 2005, approximately 16.2%, or (Won)2,799 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

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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.

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 is 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

As a result of the substantial losses incurred by certain of our subsidiaries, including Woori Bank, we had an aggregate of (Won)1,775 billion of net operating loss carry-forwards as of December 31, 2005, which expire from 2006 to 2008. We may be able to use these net operating loss carry-forwards, as well as temporary differences in the amount of tax 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 equal to the extent that it is more likely than not that deferred tax assets will not be realized. We record an expense or benefit under the income tax expense/benefit line of our income statement when there is a net change in our total deferred tax assets and liabilities in a period. In 2002 and 2003, we recorded a valuation allowance for the full amount of deferred tax assets, net of deferred tax liabilities, due to the uncertainty of the amount of our future profitability. In 2004, we reduced the valuation allowance substantially based on our expectations as of year-end regarding the future profitability of our consumer and corporate banking business and the resulting belief that it would be more likely than not that we would realize a significant amount of net deferred tax assets. Principally as a result of such reduction, we recorded an income tax benefit of (Won)392 billion in 2004. In 2005, we further reduced the valuation allowance based on our expectations as of year-ended 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, which reduced our tax expenses by (Won)244 billion.

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

Table of Contents**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	
	2003	2004	2005	2003/2004	2004/2005
(in billions of Won)					
Interest and dividend income					
Loans	(Won) 5,822	(Won) 5,674	(Won) 5,727	(2.5)%	1.1%
Deposits in other banks	73	37	46	(49.3)	24.3
Trading securities	202	163	158	(19.3)	(7.3)
Investment securities	1,378	1,319	1,214	(4.3)	(7.9)
Call loans and securities purchased under resale agreements	45	42	64	(6.7)	52.4
Total interest and dividend income	7,520	7,235	7,209	(3.8)	(0.4)
Interest expense					
Deposits	2,743	2,579	2,501	(6.0)	(3.0)
Call money	35	30	29	(14.3)	(3.3)
Other borrowed funds	313	243	294	(22.4)	21.0
Secured borrowings	259	126	114	(51.4)	(9.5)
Long-term debt	767	831	789	8.3	(5.1)
Total interest expense	4,117	3,809	3,727	(7.5)	(2.2)
Net interest income	(Won) 3,403	(Won) 3,426	(Won) 3,482	0.7	1.6
Net interest margin ⁽¹⁾	3.01%	2.84%	2.73%	(5.6)	(3.9)

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

Comparison of 2005 to 2004

Interest and dividend income. Interest and dividend income decreased slightly from (Won)7,235 billion in 2004 to (Won)7,209 billion in 2005, primarily as a result of a 7.9% decrease in interest and dividends on investment securities, which was largely offset by a 1.1% increase in interest on loans. The average yields on our interest-earning assets decreased 35 basis points from 6.00% in 2004 to 5.65% in 2005, which was driven by the decline in the general levels of interest rates in Korea from 2004 to 2005. This decrease was largely offset by a 5.9% increase in the average balance of our interest-earning assets from (Won)120,513 billion in 2004 to (Won)127,619 billion in 2005, principally due to growth in our loan portfolio.

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The 1.1% increase in interest on loans from (Won)5,674 billion in 2004 to (Won)5,727 billion in 2005 was primarily the result of:

a 91 basis point increase in the average yields of trade financing loans from 3.25% in 2004 to 4.16% in 2005, enhanced by a 2.0% increase in the average volume of such loans from (Won)7,191 billion in 2004 to (Won)7,331 billion in 2005;

a 13.2% increase in the average volume of general purpose household loans from (Won)28,370 billion in 2004 to (Won)32,112 billion in 2005, partially offset by a 55 basis point decrease in the average yields on such loans from 6.47% in 2004 to 5.92% in 2005; and

a 27.0% increase in the average volume of mortgage loans from (Won)4,086 billion in 2004 to (Won)5,187 billion in 2005, partially offset by a 38 basis point decrease in the average yields on such loans from 5.70% in 2004 to 5.32% in 2005.

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The increase in the average yields for trade financing loans was primarily a result of an increase in the benchmark interest rate with respect to such loans. The average volume of trade financing loans increased mainly as a result of higher demand for such loans. The increase in the average volume of general purpose household loans (including home equity loans) and mortgage loans mainly reflected increased lending to consumers due to higher loan demand and our continuing focus on providing loans to the retail segment. The decrease in the average yields on such loans was due primarily to the decline in the general levels of interest rates in Korea, as well as increased competition among Korean banks to lend to this segment.

These increases were partially offset by decreases in interest on loans resulting from:

a 43.7% decrease in the average volume of our interest-earning credit card balances from (Won)1,559 billion in 2004 to (Won)878 billion in 2005, partially offset by an increase of 559 basis points in the average yields on such balances from 19.82% in 2004 to 25.41% in 2005;

a 6.6% decrease in the average volume of our other commercial loans from (Won)4,623 billion in 2004 to (Won)4,317 billion in 2005, partially offset by an increase of one basis point in the average yields on such balances from 6.90% in 2004 to 6.91% in 2005; and

a 30 basis point decrease in the average yields on commercial and industrial loans from 6.25% in 2004 to 5.95% in 2005, partially offset by a 4.3% increase in the average volume of such loans from (Won)43,799 billion in 2004 to (Won)45,667 billion in 2005.

The decrease in the average volume of interest-earning credit card balances was primarily a result of substantial charge-offs of delinquent balances and continued measures to reduce the overall level of outstanding credit card balances, including lower credit limits for cardholders and reduced availability of new credit card loans. The average yields for interest-earning credit card balances increased as a result of lower delinquencies and an improvement in the overall asset quality of our credit card portfolio.

Overall, the average volume of our loans increased 6.5%, from (Won)89,786 billion in 2004 to (Won)95,583 billion in 2005, while the average yields on our loans decreased 33 basis points, from 6.32% in 2004 to 5.99% in 2005, reflecting the lower interest rate environment.

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 KDIC, the Bank of Korea and the Korea Development Bank). Interest and dividends on trading and investment securities decreased 7.4% from (Won)1,482 billion in 2004 to (Won)1,373 billion in 2005, primarily due to a 62 basis point decline in average yields on investment securities from 5.62%, in 2004 to 5.00% in 2005, which was partially offset by a 3.6% increase in the average volume of such securities from (Won)23,451 billion in 2004 to (Won)24,296 billion in 2005. The decline in average yields reflected the lower interest rate environment, while the increase in average volume was primarily a result of an increase in the average volume of available-for-sale securities resulting from the allocation of increased deposit funding to purchases of these securities.

Interest Expense. Interest expense decreased 2.8% from (Won)3,809 billion in 2004 to (Won)3,727 billion in 2005, primarily due to a 3.0% decrease in interest expense on deposits, a 5.1% decrease in interest expense on long-term debt and a 9.5% decrease in interest expense on secured borrowings. The average cost of our interest-bearing liabilities decreased 26 basis points from 3.32% in 2004 to 3.06% in 2005, which was driven by the decline in the general levels of interest rates in Korea from 2004 to 2005. This decrease was partially offset by a 6.1% increase in the average balance of our interest-bearing liabilities from (Won)114,752 billion in 2004 to (Won)121,754 billion in 2005, principally due to increased deposits and long-term debt.

The 3.0% decrease in interest expense on deposits from (Won)2,579 billion in 2004 to (Won)2,501 billion in 2005 was primarily the result of:

a 34 basis point decrease in the average cost of demand deposits from 0.54% in 2004 to 0.20% in 2005, partially offset by a 9.1% increase in the average volume of such deposits from (Won)19,498 billion in 2004 to (Won)21,271 billion in 2005; and

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a 20 basis point decrease in the average cost of time deposits (other than certificate of deposit accounts) from 3.83% in 2004 to 3.63% in 2005, partially offset by a 2.6% increase in the average volume of such deposits from (Won)50,936 billion in 2004 to (Won)52,277 billion in 2005.

These decreases were partially offset by a 47.3% increase in the average volume of certificate of deposit accounts from (Won)4,705 billion in 2004 to (Won)6,931 billion in 2005, which in turn was partially offset by a decrease of 39 basis points in the average cost of such deposits from 4.12% in 2004 to 3.73% in 2005. Overall, the average cost of our deposits decreased by 23 basis points from 2.98% in 2004 to 2.75% in 2005, principally due to the lower interest rate environment, while the average volume of our deposits increased by 5.4% from (Won)86,416 billion in 2004 to (Won)91,035 billion in 2005, primarily due to increased overall demand for bank deposit products in Korea, as well as improvements in our marketing capability for such products.

The 5.1% decrease in interest expense on long-term debt from (Won)831 billion in 2004 to (Won)789 billion in 2005 was mainly due to a 65 basis point decrease in the average cost of such debt from 5.43% in 2004 to 4.78% in 2005, due primarily to the lower interest rate environment and as we replaced maturing long-term debt with lower cost long-term debt. This was partially offset by a 7.8% increase in the average volume of such debt from (Won)15,301 billion in 2004 to (Won)16,494 billion in 2005, which was primarily due to our efforts to increase stable funding sources.

Under U.S. GAAP, transfers of assets through securitizations where control of the assets has not been surrendered are not treated as sale transactions. Instead, the assets remain on our balance sheet, and the securitization proceeds are accounted for as secured borrowings. The 9.5% decrease in interest expense on secured borrowings from (Won)125 billion in 2004 to (Won)114 billion in 2005 was due to a 115 basis point decrease in the average cost of such borrowings from 5.18% in 2004 to 4.03% in 2005, due primarily to the lower interest rate environment. This was offset by a 17.6% increase in the average volume of such borrowings from (Won)2,415 billion in 2004 to (Won)2,839 billion in 2005, which resulted primarily from an increase in the number of repurchase arrangements entered into by us in connection with new investment products we offered to our customers.

The decreases in interest expense on deposits, long-term debt and secured borrowings were partially offset by a 21.0% 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)243 billion in 2004 to (Won)294 billion in 2005. This increase was mainly due to a 36 basis point increase in the average cost of short-term borrowings (other than from the Bank of Korea) from 2.56% in 2004 to 2.92% in 2005, enhanced by a 10.4% increase in the average volume of such borrowings from (Won)8,328 billion in 2004 to (Won)9,194 billion in 2005. The increase in the average volume and average cost of such short-term borrowings was primarily due to our increased use of foreign currency borrowings based on floating rates, which increased due to the higher interest rate environment outside of Korea.

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 2.84% in 2004 to 2.73% in 2005, 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 5.9% from (Won)120,513 billion in 2004 to (Won)127,619 billion in 2005, while net interest income increased 1.6% from (Won)3,426 billion in 2004 to (Won)3,482 billion in 2005. The growth in average interest-earning assets was substantially matched by a 6.1% increase in the average balance of our interest-bearing liabilities from (Won)114,752 billion in 2004 to (Won)121,754 billion in 2005, while the decrease in interest and dividend income was outpaced by a decrease 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, declined from 2.68% in 2004 to 2.59% in 2005. The decline in net interest spread reflected a larger decline in the average yield on interest-earning assets from 2004 to 2005, which was accelerated by the replacement of high-yield credit card balances with lower-yielding investment securities (partially offset by the effects of average volume increases in higher margin segments such as general purpose household loans), compared to the decline in the average cost of interest-bearing liabilities between the two periods, particularly for demand deposits and other time deposits where growth in average volume was relatively large.

Table of Contents*Comparison of 2004 to 2003*

Interest and dividend income. Interest and dividend income decreased 3.8% from (Won)7,520 billion in 2003 to (Won)7,235 billion in 2004, primarily due to a 2.5% decrease in interest on loans. The average yields on our interest-earning assets decreased 66 basis points from 6.66% in 2003 to 6.00% in 2004, which was driven by the decline in the general levels of interest rates in Korea from 2003 to 2004. This decrease was partially offset by a 6.7% increase in the average balance of our interest-earning assets from (Won)112,950 billion in 2003 to (Won)120,513 billion in 2004, principally due to growth in our loan portfolio and our investment securities portfolio.

The 2.5% decrease in interest on loans from (Won)5,822 billion in 2003 to (Won)5,674 billion in 2004 was primarily the result of:

a 56.3% decrease in the average volume of our interest-earning credit card balances from (Won)3,567 billion in 2003 to (Won)1,559 billion in 2004, partially offset by an increase of 140 basis points in the average yields on such balances from 18.42% in 2003 to 19.82% in 2004; and

a 145 basis point decrease in the average yields of trade financing loans from 4.70% in 2003 to 3.25% in 2004, partially offset by a 5.3% increase in the average volume of such loans from (Won)6,828 billion in 2003 to (Won)7,191 billion in 2004.

The decrease in the average volume of interest-earning credit card balances was primarily a result of substantial charge-offs of delinquent balances and continued measures to reduce the overall level of outstanding credit card balances, including lower credit limits for cardholders and reduced availability of new credit card loans. The average yields for interest-earning credit card balances increased as a result of lower delinquencies and an improvement in the overall asset quality of our credit card portfolio. The decrease in the average yields for trade financing loans was primarily a result of the decline in the general levels of interest rates in Korea from 2003 to 2004.

These decreases were partially offset by increases in interest on loans resulting from:

an 11.1% increase in the average volume of commercial and industrial loans from (Won)39,420 billion in 2003 to (Won)43,799 billion in 2004; and

a 33.3% increase in the average volume of mortgage loans from (Won)3,066 billion in 2003 to (Won)4,086 billion in 2004, partially offset by a 69 basis point decrease in the average yields on such loans from 6.29% in 2003 to 5.70% in 2004.

The average volume of general purpose household loans (including home equity loans) also increased by 5.6% from (Won)26,874 billion in 2003 to (Won)28,370 billion in 2004, but the effects of this increase were mostly offset by a decrease of 28 basis points in the average yields on such loans from 6.75% in 2003 to 6.47% in 2004. The increase in the average volume of commercial and industrial loans, general purpose household loans (including home equity loans) and mortgage loans mainly reflected increased lending to small- and medium-sized enterprises and consumers due to higher loan demand and our continuing focus on providing loans to these segments. Overall, the average volume of our loans increased 5.8%, from (Won)84,867 billion in 2003 to (Won)89,786 billion in 2004, while the average yields on our loans decreased 54 basis points, from 6.86% to 6.32%, reflecting the lower interest rate environment in Korea in 2004.

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Interest and dividends on trading and investment securities decreased 6.2% from (Won)1,580 billion in 2003 to (Won)1,482 billion in 2004, primarily due to a 111 basis point decline in average yields on investment securities from 6.73% to 5.62%, which was partially offset by a 14.4% increase in the average volume of such securities from (Won)24,415 billion to (Won)27,929 billion. The decline in average yields reflected the lower interest rate environment, while the increase in average volume was primarily a result of an increase in the average volume of available-for-sale securities resulting from the allocation of increased deposit funding to purchases of these securities.

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Interest Expense. Interest expense decreased 7.5% from (Won)4,117 billion in 2003 to (Won)3,809 billion in 2004, primarily due to a 6.0% decrease in interest expense on deposits, a 51.4% decrease in interest expense on secured borrowings and a 22.4% decrease in other borrowed funds. The average cost of our interest-bearing liabilities decreased 46 basis points from 3.78% to 3.32%, which was driven by the decline in the general levels of interest rates in Korea from 2003 to 2004. This decrease was partially offset by a 5.3% increase in the average balance of our interest-bearing liabilities from (Won)109,015 billion in 2003 to (Won)114,752 billion in 2004, principally due to increased deposits and long-term debt.

The 6.0% decrease in interest expense on deposits from (Won)2,743 billion in 2003 to (Won)2,580 billion in 2004 was primarily the result of a 69 basis point decrease in the average cost of time deposits (other than certificate of deposit accounts) from 4.52% in 2003 to 3.83% in 2004, partially offset by a 5.8% increase in the average volume of such deposits from (Won)48,159 billion in 2003 to (Won)50,936 billion in 2004. This decrease was also partially offset by a 174.2% increase in the average volume of certificate of deposit accounts from (Won)1,716 billion in 2003 to (Won)4,705 billion in 2004, which in turn was partially offset by a decrease of 25 basis points in the average cost of such deposits from 4.37% to 4.12%. Overall, the average cost of our deposits decreased by 42 basis points from 3.41% in 2003 to 2.99% in 2004, principally due to the lower interest rate environment, while the average volume of our deposits increased by 7.4% from (Won)80,455 billion to (Won)86,416 billion primarily due to increased overall demand for bank deposit products (principally certificate of deposit accounts and other time deposits) in Korea, as well as improvements in our marketing capability for such products.

The 51.4% decrease in interest expense on secured borrowings from (Won)259 billion in 2003 to (Won)126 billion in 2004 was due to a 51.7% decrease in the average volume of such borrowings from (Won)4,995 billion in 2003 to (Won)2,415 billion in 2004, which resulted primarily from the maturity of existing borrowings and a decrease in new borrowings.

The 22.4% decrease in interest expense on other borrowed funds from (Won)313 billion in 2003 to (Won)243 billion in 2004 was mainly due to a 93 basis point decrease in the average cost of short-term borrowings (other than from the Bank of Korea) from 3.49% in 2003 to 2.56% in 2004, partially offset by a 3.8% increase in the average volume of such borrowings from (Won)8,024 billion in 2003 to (Won)8,328 billion in 2004. The increase in the average volume of such short-term borrowings was primarily due to our increased use of short-term borrowings to take advantage of the lower cost of such borrowings, while the decrease in the average cost of such short-term borrowings was primarily due to the lower interest rate environment.

The decreases in interest expense on deposits, secured borrowings and other borrowed funds were partially offset by an 8.3% increase in interest expense on long-term debt from (Won)767 billion in 2003 to (Won)831 billion in 2004, which was attributable to an increase in the average volume of such debt. The average volume of our long-term debt increased 16.3% from (Won)13,157 billion in 2003 to (Won)15,301 billion in 2004, due to our efforts to increase stable funding sources. This increase was partially offset by a 40 basis point decrease in the average cost of our long-term debt from 5.83% in 2003 compared to 5.43% in 2004, due primarily to the lower interest rate environment and as we replaced maturing long-term debt with lower cost long-term debt.

Net interest margin. Our overall net interest margin decreased from 3.01% in 2003 to 2.84% in 2004, 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 6.7% from (Won)112,950 billion in 2003 to (Won)120,513 billion in 2004, while net interest income remained relatively stable at (Won)3,426 billion in 2004 compared to (Won)3,403 billion in 2003. The growth in average interest-earning assets outpaced a 5.3% increase in the average balance of our interest-bearing liabilities from (Won)109,015 billion in 2003 to (Won)114,752 billion in 2004, while the decrease in interest and dividend income was substantially matched by a decrease in interest expense. However, net interest spread declined from 2.88% in 2003 to 2.68% in 2004. The decline in net interest spread reflected a larger decline in the average yield on interest-earning assets from 2003 to 2004, which was accelerated by the replacement of high-yield credit card balances with lower-yielding investment securities (partially offset by the effects of average volume increases in higher margin segments such as general purpose household loans), compared to the decline in the average cost of interest-bearing liabilities between the two periods, particularly for certificate of deposit accounts and long-term debt where growth in average volume was relatively large.

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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 2005 to 2004

Our provision for loan losses decreased from (Won)652 billion in 2004 to (Won)308 billion in 2005, primarily as a result of an overall improvement in the asset quality of our corporate loan portfolio and credit card portfolio, as reflected in a decrease in delinquency rates and non-performing loans.

Our loan charge-offs, net of recoveries, decreased 67.7% from (Won)1,936 billion in 2004 to (Won)626 billion in 2005. This decrease was attributable mainly to a (Won)867 billion 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 decreased from (Won)43 billion for 2004 to a reversal of provision of (Won)39 billion in 2005, due to our determination in 2005 that a portion of our allowances for losses on credit-related commitments were no longer needed.

Our other provisions changed from a reversal of provision of (Won)6 billion for 2004 to provision of (Won)16 billion in 2005. This resulted primarily from an increase in expected losses with respect to litigation and an increase in provisions in connection with our customer loyalty programs.

Comparison of 2004 to 2003

Our provision for loan losses decreased from (Won)2,313 billion in 2003 to (Won)652 billion in 2004, primarily as a result of an improvement in the asset quality of our credit card portfolio, as reflected in a decrease in delinquency rates and non-performing loans, and continued decline in our outstanding credit card balances due to charge-offs and our efforts to limit the growth of these assets.

This decrease was partially offset by higher provisions in respect of our corporate loan portfolio, particularly small- and medium-sized enterprise loans, and our consumer loans. The higher provisions with respect to such loans were primarily due to the increase in the outstanding volume of such loans and, in the case of consumer loans, an overall deterioration in asset quality in 2004 compared to 2003.

Our loan charge-offs, net of recoveries, decreased 45.3% from (Won)3,542 billion in 2003 to (Won)1,936 billion in 2004. This decrease was attributable mainly to a (Won)1,040 billion decrease in net charge-offs of allowance relating to loans sold and a (Won)409 billion decrease in net

charge-offs of outstanding credit card balances, which were partially offset by a (Won)55 billion increase in net charge-offs of consumer loans. Our charge-offs of allowance relating to total loans sold decreased as we sold (Won)1,840 billion of mainly non-performing loans during 2004, compared to sales of (Won)3,015 billion of loans during 2003, as part of our continuing effects to enhance the overall asset quality of our corporate loan portfolio. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Sales of Non-Performing Loans. The decrease in net charge-offs of credit card balances reflected the improvement in the asset quality of our credit card portfolio. The increase in net charge-offs of consumer loans reflected the deterioration in the asset quality of our consumer loan portfolio. Despite higher net charge-offs, overdue balances in our consumer loan portfolio increased 49.5% from (Won)1,048 billion as of December 31, 2003 to (Won)1,567 billion as of December 31, 2004, which, together with the growth in outstanding volume, resulted in higher provisioning for our consumer loans.

Our provisions with respect to credit-related commitments decreased from (Won)201 billion for 2003 to (Won)43 billion for 2004. This decrease resulted primarily from provisions recorded in 2003 in respect of loan commitments to LG Card, which were not reported in 2004.

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Our other provisions changed from (Won)102 billion for 2003 to a reversal of provision of (Won)6 billion for 2004. This resulted primarily from a decrease in repurchase obligations in respect of loans previously sold with recourse to KAMCO, which led to a decrease in provisions for such obligations.

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, 2005, our coverage ratio, which is the ratio of our total allowance to non-performing loans, was 89.8%. 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, 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,		
	2003	2004	2005
Impaired corporate loans as a percentage of total corporate loans	6.27%	4.62%	3.45%
Non-performing corporate loans as a percentage of total corporate loans	2.83	2.60	1.53
Allowance for loan losses for corporate loans as a percentage of total corporate loans	2.69	2.44	1.48
Allowance for loan losses for corporate loans as a percentage of impaired corporate loans	42.86	52.84	70.52
Allowance for loan losses for corporate loans as a percentage of non-performing corporate loans	95.14	94.06	116.10
Net charge-offs as a percentage of total corporate loans	3.87	1.45	0.24

During 2005, 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 2004, 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, as well as the level of allowance for loan losses for corporate loans as a percentage of non-performing 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 impaired corporate loans increased as a result of the deterioration in the asset quality of small- and medium-sized enterprise loans due to an increase in new delinquencies.

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.

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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,		
	2003	2004	2005
Non-performing consumer loans as a percentage of total consumer loans ⁽¹⁾	1.30%	1.53%	0.93%
Allowance for loan losses for consumer loans as a percentage of total consumer loans ⁽¹⁾	0.86	0.85	0.85
Allowance for loan losses for consumer loans as a percentage of non-performing consumer loans ⁽¹⁾	66.32	55.37	90.52
Net charge-offs of consumer loans as a percentage of total consumer loans ⁽¹⁾	0.27	0.41	0.28

⁽¹⁾ Excludes credit card balances.

During 2005, non-performing consumer loans 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, while the level of allowance for loan losses for consumer loans as a percentage of total consumer loans remained relatively stable. 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 growth in our consumer loan portfolio also led to a decrease in net charge-offs as a percentage of total consumer loans.

During 2004, despite higher net charge-offs, non-performing consumer loans as a percentage of total consumer loans increased due to continuing increases in delinquencies in the consumer loan portfolio, the effects of which were partially offset by the growth in such portfolio. Despite such increase, the level of allowance for loan losses for consumer loans as a percentage of total consumer loans remained relatively stable, while the level of allowance for loan losses for consumer loans as a percentage of non-performing consumer loans decreased, reflecting an improved overall mix of non-performing consumer loans, including as a result of higher charge-offs of delinquent consumer loans, which led to the increase in net charge-offs as a percentage of total consumer loans.

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

	As of December 31,		
	2003	2004	2005
Non-performing credit card balances as a percentage of total credit card balances	16.97%	5.92%	2.20%
Allowance for loan losses for credit card balances as a percentage of total credit card balances	28.25	7.92	3.06
Allowance for loan losses for credit card balances as a percentage of non-performing credit card balances	166.49	133.94	139.34
Net charge-offs as a percentage of total credit card balances	34.50	46.71	4.06

During 2005, 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.

During 2004, as a result of significant charge-offs and the resulting improvement in the overall asset quality of our credit card portfolio, non-performing credit card balances and the level of allowance for loan losses for

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credit card balances, in each case as a percentage of total credit card balances, decreased. The level of allowance for loan losses for credit card balances as a percentage of non-performing credit card balances also decreased as a result of the large amount of charge-offs of delinquent credit card balances in 2004, which led to a significant increase in net charge-offs as a percentage of total 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	
	2003	2004	2005	2003/2004	2004/2005
	(in billions of Won)				
Fees and commission income	(Won) 1,087	(Won) 1,079	(Won) 1,203	(0.7)%	11.5%
Net trading revenue	111	436	256	292.8	(41.3)
Trust fees, net	45	40	13	(11.1)	(67.5)
Net gain (loss) on investment securities ⁽¹⁾	(83)	127	244	N/M	92.1
Other non-interest income	275	271	200	(1.5)	(26.2)
Total non-interest income	(Won) 1,435	(Won) 1,953	(Won) 1,916	36.1	(1.9)

⁽¹⁾ N/M = not meaningful.

Comparison of 2005 to 2004

Non-interest income decreased 1.9% from (Won)1,953 billion in 2004 to (Won)1,916 billion in 2005. This decrease was primarily attributable to:

a (Won)180 billion decrease in net trading revenue from (Won)436 billion in 2004 to (Won)256 billion in 2005; and

a (Won)71 decrease in other non-interest income from (Won)271 billion in 2004 to (Won)200 billion in 2005.

These decreases were partially offset by:

a (Won)124 billion increase in fees and commission income from (Won)1,079 billion in 2004 to (Won)1,203 billion in 2005; and

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a (Won)117 increase in net gain (loss) on investment securities from (Won)127 billion in 2004 to (Won)244 billion in 2005.

Net trading revenue represents net realized and unrealized gains (or losses) on securities and derivatives in our trading portfolio. The 41.3% decrease in net trading revenue was primarily the result of a net loss on debt securities of (Won)45 billion in 2005 compared to a net gain on such securities of (Won)107 billion in 2004. This change was due to an increase in the benchmark interest rate with respect to debt securities in our trading portfolio in 2005 compared to 2004, which resulted in net realized and unrealized losses in our debt security trading portfolio.

Other non-interest income consists primarily of gains on disposal of premises and equipment and gains on sales of loans. The 26.2% decrease in other non-interest income was mainly due to lower gains on disposal of premises and equipment.

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 11.5% increase in fees and commission income from 2004 to 2005 resulted primarily from an increase in the rate of commissions we charged on internet and telephone banking, ATM and credit card transactions.

Net gain (loss) on investment securities represents net realized gains (or losses) and impairment losses on securities in our investment portfolio. The 92.1% increase in net gain on investment securities from 2004 to 2005 resulted primarily from a higher gain on valuation using the equity method of accounting with respect to Woori Investment & Securities, in which we hold a 35.1% interest.

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Non-interest income increased 36.1% from (Won)1,435 billion in 2003 to (Won)1,953 billion in 2004. This increase was primarily attributable to a (Won)325 billion increase in net trading revenue from (Won)111 billion in 2003 to (Won)436 billion in 2004 and a (Won)127 billion net gain on investment securities in 2004 compared to a (Won)83 billion net loss in 2003.

The 292.8% increase in net trading revenue was primarily the result of a net gain on debt securities of (Won)107 billion in 2004 compared to a net loss on such securities of (Won)46 billion in 2003. This change was due to losses of (Won)85 billion on debt securities of LG Card in 2003, which did not recur in 2004. This increase was enhanced by a net gain on derivatives instruments of (Won)77 billion in 2004 compared to a net loss on such instruments of (Won)67 billion in 2003. This change was due to losses on foreign exchange forwards sold that we had entered into in the fourth quarter of 2003, which did not recur in 2004.

The change from a net loss on investment securities in 2003 to a net gain in 2004 resulted primarily from a (Won)107 billion net gain on equity securities in 2004 compared to a (Won)11 billion net loss on such securities in 2003, as a result of improved trading market conditions in Korea. The effect of this change was enhanced by an 80.4% decrease in net loss on debt securities from (Won)116 billion in 2003 to (Won)23 billion in 2004, due mainly to (Won)121 billion of impairment losses on our holdings of investment securities of LG Card in 2003, which did not recur in 2004.

Non-Interest Expense

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

	Year ended December 31,			% Change	
	2003	2004	2005	2003/2004	2004/2005
	(in billions of Won)				
Salaries and employee benefits	(Won) 865	(Won) 978	(Won) 1,009	13.1%	3.2%
Other administrative expenses	742	778	827	4.9	6.3
Fees and commissions	336	243	214	(27.7)	(11.9)
Depreciation and amortization	266	268	237	0.8	(11.6)
Other non-interest expenses	427	541	646	26.7	19.4
Total non-interest expense	(Won) 2,636	(Won) 2,808	(Won) 2,933	6.5	4.5

Comparison of 2005 to 2004

Non-interest expense increased 4.5% from (Won)2,808 billion in 2004 to (Won)2,933 billion in 2005. This increase was primarily due to:

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a (Won)105 billion increase in other non-interest expenses from (Won)541 billion in 2004 to (Won)646 billion in 2005;

a (Won)49 billion increase in other administrative expenses from (Won)778 billion in 2004 to (Won)827 billion in 2005; and

a (Won)31 billion increase in salaries and employee benefits from (Won)978 billion in 2004 to (Won)1,009 billion in 2005.

These increases were partially offset by:

a (Won)31 billion decline in depreciation and amortization from (Won)268 billion in 2004 to (Won)237 billion in 2005; and

a (Won)29 billion decline in fees and commissions from (Won)243 billion in 2004 to (Won)214 billion in 2005.

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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 19.4% increase in other non-interest expense was mainly due to higher losses associated with loans sold to third parties.

Other administrative expenses consist mainly of rent, outside service fees and advertising expenses. The 6.3% increase in other administrative expenses was mainly due to an increase in rent for employee housing and an increase in advertising expenses.

The 3.2% increase in salaries and employee benefits resulted mainly from increased salary and bonus levels, principally at Woori Bank.

The 11.6% decrease in depreciation and amortization was primarily due to a decrease in the depreciation of our accounting system and a decrease in the amortization of our intangible assets in 2005 compared to 2004.

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 11.9% decrease in fees and commission expenses was primarily due to a decrease in fees paid on letters of credit and collections.

Comparison of 2004 to 2003

Non-interest expense increased 6.5% from (Won)2,636 billion in 2003 to (Won)2,808 billion in 2004. This increase was primarily due to:

a (Won)114 billion increase in other non-interest expenses from (Won)427 billion in 2003 to (Won)541 billion in 2004;

a (Won)113 billion increase in salaries and employee benefits from (Won)865 billion in 2003 to (Won)978 billion in 2004; and

a (Won)36 billion increase in other administrative expenses from (Won)742 billion in 2003 to (Won)778 billion in 2004.

These increases were partially offset by a (Won)93 billion decline in fees and commissions from (Won)336 billion in 2003 to (Won)243 billion in 2004.

The 26.7% increase in other non-interest expense was mainly due to (Won)40 billion of losses recorded in 2004 in connection with an embezzlement of funds by an employee of Woori Credit Card prior to its merger with Woori Bank as well as (Won)34 billion of losses relating to the termination of outstanding contracts of Woori Credit Card in connection with such merger.

The 13.1% increase in salaries and employee benefits resulted mainly from increased salary and bonus levels, principally at Woori Bank.

The 4.9% increase in other administrative expenses was mainly due to a (Won)35 billion increase in outside service fees relating to outsourced information and technology services stemming from upgraded operating systems.

The 27.7% decrease in fees and commission expenses was primarily due to a (Won)82 billion decrease in fees paid on remittances and collections, which was attributable mainly to a decline in the volume of securitized assets that we continue to manage and the resulting decrease in fees for outsourced collection services.

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.

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Because certain of our subsidiaries, including Woori Bank, have significant net operating loss carry-forwards relating to their operations prior to our acquisition of those subsidiaries, the substantial majority of our income tax expense is applied, in effect, to reduce our deficit equity, which is a component of our additional paid-in capital. This accounting treatment will be allowed with respect to the income tax expense of those subsidiaries so long as pre-acquisition net operating loss carry-forwards remain with respect to those subsidiaries. Certain of our subsidiaries also have significant post-acquisition 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 recorded as income tax expense or benefit, respectively. See Note 31 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2005 to 2004

Income tax expense changed from a benefit of (Won)392 billion in 2004 to an expense of (Won)401 billion in 2005, as income before income taxes increased 15.73% from (Won)1,882 billion in 2004 to (Won)2,178 billion in 2005. The change in income tax expense resulted primarily from a substantial decrease in valuation allowance for net operating loss carry-forwards, which is recorded as part of income tax expense, in 2004, which was repeated to a much lesser degree in 2005. See Critical Accounting Estimates Valuation Allowance for Deferred Tax Assets.

Comparison of 2004 to 2003

Income tax expense changed from an expense of (Won)254 billion in 2003 to a benefit of (Won)392 billion in 2004, despite the change in income before income taxes from a loss of (Won)414 billion in 2003 to income of (Won)1,882 billion in 2004. The change in income tax expense resulted primarily from a substantial decrease in valuation allowance for net operating loss carry-forwards, which is recorded as part of income tax expense, due to the fact that we believed it was more likely than not that we will realize a significant amount of net deferred tax assets, based on our expectations as of year-end 2004 regarding our future profitability. See Critical Accounting Estimates Valuation Allowance for Deferred Tax Assets.

Net Income (Loss)

Due to the factors described above, our net income in 2005 was (Won)1,806 billion, compared to a net income of (Won)2,035 billion in 2004 and a net loss of (Won)672 billion in 2003.

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. We have restated our segment information for years prior to 2004 to reflect the addition of the securities brokerage services segment. Because LGIS did not become a consolidated subsidiary until December 24, 2004, the income statement

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data presented below for the securities brokerage services segment for 2004 does not reflect most of the results of operations of LGIS for that year.

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. However, the segment information for Woori Bank for all periods presented includes the former operations of Woori Investment Bank, which was merged into Woori Bank in August 2003.

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

	Net income (loss) ⁽¹⁾			Total operating income ⁽²⁾		
	Year ended December 31,			Year ended December 31,		
	2003	2004	2005	2003	2004	2005
	(in billions of Won)					
Woori Bank	(Won) 1,346	(Won) 1,787	(Won) 1,240	(Won) 8,490	(Won) 11,480	(Won) 11,078
Kyongnam Bank	85	109	133	790	793	817
Kwangju Bank	57	72	125	600	613	674
Credit card operations	(1,321)	(258)	186	995	601	570
Securities brokerage services	(13)		160	164	179	1,536
Other	222	1,331	1,772	752	1,897	2,286
Total ⁽³⁾	(Won) 376	(Won) 3,041	(Won) 3,616	(Won) 11,791	(Won) 15,627	(Won) 16,961

⁽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.

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 also includes the historical operations of Woori Investment Bank, which was a nationwide merchant bank in Korea whose principal business activities included short-term financing and lease financing. We merged Woori Investment Bank with Woori Bank in August 2003. However, 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	
	2003	2004 ⁽¹⁾	2005 ⁽¹⁾	2003/2004	2004/2005
	(in billions of Won)				
Income statement data					
Interest and dividend income	(Won) 5,846	(Won) 5,694	(Won) 5,659	(2.6)%	(0.6)%
Interest expense	2,900	2,847	2,878	(1.8)	1.1
Provision for loan losses and credit-related commitments	808	553	391	(31.6)	(29.3)
Non-interest income	2,643	5,759	5,419	117.9	(5.9)
Non-interest expense including depreciation and amortization.	3,328	6,658	6,416	100.1	(3.6)
Extraordinary gain					
Net income (loss) before tax and minority interest	1,453	1,395	1,393	(4.0)	(0.1)
Income tax expense (benefit) ⁽²⁾	105	(393)	152	N/M	N/M

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Minority interest	<u>2</u>	<u>1</u>	<u>1</u>	(50.0)	0.0
Net income	<u>(Won) 1,346</u>	<u>(Won) 1,787</u>	<u>(Won) 1,240</u>	32.8	(30.6)
Net interest margin	3.2%	3.0%	3.0%		

- ⁽¹⁾ Under Korean GAAP, effective from 2004, the difference between the book value of a loan and the proceeds received in connection with a sale of such loan was recognized as non-interest income or non-interest expense. In prior periods, such difference was adjusted through a decrease or an increase in the provision for loan losses. In 2004, non-interest income and non-interest expense recognized through the sale of loans amounted to (Won)32 billion and (Won)167 billion, respectively. In 2005, non-interest income and non-interest expense recognized through the sale of loans amounted to (Won)121 billion and (Won)155 billion, respectively.

⁽²⁾ N/M = not meaningful.

Table of Contents*Comparison of 2005 to 2004*

Our net income before tax and minority interest expense for this segment remained relatively stable at (Won)1,393 billion in 2005 compared to (Won)1,395 billion in 2004. In 2004, Woori 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 2005 and, accordingly, net income after tax decreased 30.6% from (Won)1,787 billion in 2004 to (Won)1,240 billion in 2005.

Interest and dividend income from our Woori Bank operations remained relatively stable at (Won)5,659 billion in 2005 compared to (Won)5,694 billion in 2004, primarily due to an overall decrease in average yields on interest-earning assets which was largely offset by an increase in average lending volumes. The decline in average yields on interest-earning assets was attributable mainly to the general decline in market rates. The average volume of Woori Bank's loans (excluding credit card receivables) on a non-consolidated basis increased 4.4% from (Won)75,698 billion in 2004 to (Won)79,039 billion in 2005, with the majority of this increase resulting from increases in the average volumes of loans to small- and medium-sized enterprises, general purpose household loans (including home equity loans) and mortgage loans, reflecting increased demand for these loan products.

Interest expense increased 1.1% from (Won)2,847 billion in 2004 to (Won)2,878 billion in 2005. The increase in interest expense was primarily due to a 4.6% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from (Won)92,338 billion in 2004 to (Won)96,564 billion in 2005, which was attributable mainly to an increase in the average volume of deposits (principally certificate of deposit accounts and demand deposits) reflecting increased demand for such products in Korea, 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 partially offset by a decrease in the average cost of interest-bearing liabilities resulting from the lower interest rate environment and as Woori Bank replaced maturing debentures with lower cost debentures.

Net interest income decreased 2.3% from (Won)2,847 billion in 2004 to (Won)2,781 billion in 2005. The decrease in net interest income reflected a decrease in net interest spread, which in turn resulted from a larger decrease in the average yield on interest-earning assets from 2004 to 2005 compared to the decrease in the average cost of interest-bearing liabilities, particularly for demand deposits and other time deposits where growth in average volume was relatively large.

Provision for loan losses and credit-related commitments decreased 29.3% from (Won)553 billion in 2004 to (Won)391 billion in 2005. The decrease was primarily attributable to a decrease in provisions in respect of Woori Bank's corporate loan portfolio due to the improvement in its overall asset quality in 2005 compared to 2004, including as a result of continued sales of non-performing corporate loans. This decrease was partially offset by increased provisions due to the growth in, and a decline in the overall asset quality of, Woori Bank's lending to small- and medium-sized enterprises and its consumer loan portfolio.

Non-interest income decreased 5.9% from (Won)5,759 billion in 2004 to (Won)5,419 billion in 2005, primarily due to a decrease in gains on derivatives trading and foreign exchange trading and a decrease in gains on disposal of premises and equipment.

Non-interest expense, including depreciation and amortization, decreased 3.6% from (Won)6,658 billion in 2004 to (Won)6,416 billion in 2005, primarily as a result of decreased losses on derivatives trading and foreign exchange trading as a result of the relative stabilization of exchange rates in 2005 compared to 2004.

Table of Contents*Comparison of 2004 to 2003*

Our net income before tax and minority interest expense for this segment decreased 4.0% from (Won)1,453 billion in 2003 to (Won)1,395 billion in 2004. In 2004, Woori 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. Accordingly, net income after tax increased 32.8% from (Won)1,346 billion in 2003 to (Won)1,787 billion in 2004.

Interest and dividend income from our Woori Bank operations decreased 2.6% from (Won)5,846 billion in 2003 to (Won)5,694 billion in 2004, primarily due to (Won)325 billion of income recognized in 2003 as a result of the dissolution of our Hanvit special purpose entities, which did not recur in 2004, and an overall decrease in average yields on interest-earning assets, which was partially offset by an increase in average lending volumes. The decline in average yields on interest-earning assets was attributable mainly to the general decline in market rates in Korea from 2003 to 2004. The average volume of Woori Bank's loans (excluding credit card receivables) on a non-consolidated basis increased 14.8% from (Won)65,944 billion in 2003 to (Won)75,698 billion in 2004, with the majority of this increase resulting from increases in the average volumes of loans to small- and medium-sized enterprises, general purpose household loans (including home equity loans) and mortgage loans, reflecting increased demand for these loan products.

Interest expense decreased 1.8% from (Won)2,900 billion in 2003 to (Won)2,847 billion in 2004. The decrease in interest expense was primarily due to a decrease in the average cost of interest-bearing liabilities resulting from the lower interest rate environment and as Woori Bank replaced maturing debentures with lower cost debentures. These decreases were partially offset by an 8.8% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from (Won)66,496 billion in 2003 to (Won)92,338 billion in 2004, which was attributable mainly to an increase in the average volume of deposits (principally certificate of deposit accounts and other time deposits) reflecting increased demand for such products in Korea, as well as an increase in the average volume of long-term debt due to Woori Bank's efforts to increase stable funding sources.

Net interest income decreased 3.4% from (Won)2,946 billion in 2003 to (Won)2,847 billion in 2004. The decrease in net interest income reflected a decrease in net interest spread, which in turn resulted from a larger decrease in the average yield on interest-earning assets from 2003 to 2004 compared to the decrease in the average cost of interest-bearing liabilities, particularly for certificate of deposit accounts and long-term debt where growth in average volume was relatively large.

Provision for loan losses and credit-related commitments decreased 31.6% from (Won)808 billion in 2003 to (Won)553 billion in 2004. The decrease was primarily attributable to a decrease in provisions in respect of Woori Bank's corporate loan portfolio due to the improvement in its overall asset quality in 2004 compared to 2003, including as a result of continued sales of non-performing corporate loans. This decrease was partially offset by increased provisions due to the growth in, and a decline in the overall asset quality of, Woori Bank's lending to small- and medium-sized enterprises and its consumer loan portfolio.

Non-interest income increased 117.9% from (Won)2,643 billion in 2003 to (Won)5,759 billion in 2004 primarily due to growth in fee income from bancassurance and guarantees, as well as increased gains on derivatives trading and foreign exchange trading. These increases were partially offset by a decrease in recoveries of impairment loss previously recognized on investment securities.

Non-interest expense, including depreciation and amortization, increased 100.1% from (Won)3,328 billion in 2003 to (Won)6,658 billion in 2004 primarily as a result of increased losses on derivatives trading, increased losses on foreign exchange trading, increased administrative expenses, including fees for outsourced information and technology services, and increased salary and bonus levels.

Table of Contents**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	
	2003	2004	2005	2003/2004	2004/2005
(in billions of Won)					
Income statement data					
Interest and dividend income	(Won) 654	(Won) 657	(Won) 702	0.5%	6.8%
Interest expense	356	315	324	(11.5)	2.9
Provision for loan losses and credit-related commitments	128	101	61	(21.1)	(39.6)
Non-interest income	136	134	115	(1.5)	(14.2)
Non-interest expense including depreciation and amortization	251	263	288	4.8	9.5
Net income (loss) before tax and minority interest	55	112	144	103.6	28.6
Income tax expense (benefit) ⁽¹⁾	(30)	3	11	N/M	266.7
Minority interest					
Net income	(Won) 85	(Won) 109	(Won) 133	28.2	22.0

⁽¹⁾ N/M = not meaningful.

Comparison of 2005 to 2004

Our net income before tax and minority interest expense for this segment increased 28.6% from (Won)112 billion in 2004 to (Won)144 billion in 2005. Net income after tax also increased 22.0% from (Won)109 billion in 2004 to (Won)133 billion in 2005.

Interest and dividend income from our Kyongnam Bank operations increased 6.8% from (Won)657 billion in 2004 to (Won)702 billion in 2005, primarily due to an increase in average lending volumes, which was partially offset by an overall decrease in average yields on interest-earning assets. The average volume of Kyongnam Bank's loans increased 10.6% from (Won)6,813 billion in 2004 to (Won)7,535 billion in 2005, 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 partially offset by a decline in the average yields on interest-earning assets resulting from the general decline in market rates.

Interest expense increased 2.9% from (Won)315 billion in 2004 to (Won)324 billion in 2005. The increase in interest expense resulted principally from a 10.4% increase in the average volume of deposits from (Won)8,494 billion in 2004 to (Won)9,477 billion in 2005, primarily

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as a result of increased overall demand for bank deposit products (principally certificate of deposit accounts and demand deposits) in Korea. This increase was partially offset by decline in the average cost of interest-bearing liabilities due to the lower interest rate environment.

Provision for loan losses and credit-related commitments decreased 39.6% from (Won)101 billion in 2004 to (Won)61 billion in 2005, 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 decreased 14.2% from (Won)134 billion in 2004 to (Won)115 billion in 2005, primarily due to decreases in gains on the disposal of available-for-sale securities and recoveries of impairment loss previously recognized on such securities.

Non-interest expense, including depreciation and amortization, increased 9.5% from (Won)263 billion in 2004 to (Won)288 billion in 2005, primarily due to increases in administrative expenses, fees paid on remittances and collections, and losses in connection with the disposal of short-term debt securities.

Table of Contents*Comparison of 2004 to 2003*

Our net income before tax and minority interest expense for this segment increased 103.6% from (Won)55 billion in 2003 to (Won)112 billion in 2004. In 2004, Kyongnam 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. Accordingly, net income after tax increased 28.2% from (Won)85 billion in 2003 to (Won)109 billion in 2004.

Interest and dividend income from our Kyongnam Bank operations remained relatively stable at (Won)657 billion in 2004 compared to (Won)654 billion in 2003. The average volume of Kyongnam Bank's loans increased 5.9% from (Won)6,433 billion in 2003 to (Won)6,813 billion in 2004, 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 offset by a decline in the average yields on interest-earning assets resulting from the general decline in market rates in Korea from 2003 to 2004.

Interest expense decreased 11.5% from (Won)356 billion in 2003 to (Won)315 billion in 2004. The decrease in interest expense resulted principally from a decline in the average cost of interest-bearing liabilities due to the lower interest rate environment. This decrease was partially offset by a 4.3% increase in the average volume of deposits from (Won)8,145 billion in 2003 to (Won)8,494 billion in 2004, primarily as a result of increased overall demand for particular types of bank deposit products such as time deposits in Korea.

Provision for loan losses and credit-related commitments decreased 21.1% from (Won)128 billion in 2003 to (Won)101 billion in 2004, 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 remained relatively stable at (Won)134 billion in 2004 compared to (Won)136 billion in 2003.

Non-interest expense, including depreciation and amortization, increased 4.8% from (Won)251 billion in 2003 to (Won)263 billion in 2004, primarily due to an increase in administrative expenses, partially offset by a decrease in impairment losses on investment securities.

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	
2003	2004	2005	2003/2004	2004/2005

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(in billions of Won)

Income statement data					
Interest and dividend income	(Won) 524	(Won) 531	(Won) 589	1.3%	10.9%
Interest expense	290	279	296	(3.8)	6.1
Provision for loan losses and credit-related commitments	95	60	73	(36.8)	21.7
Non-interest income	75	82	85	9.3	3.7
Non-interest expense including depreciation and amortization	181	174	207	(3.9)	19.0
Net income before tax and minority interest	33	100	98	203.0	(2.0)
Income tax expense (benefit) ⁽¹⁾	(24)	28	(27)	N/M	(196.4)
Minority interest					
Net income	(Won) 57	(Won) 72	(Won) 125	26.3	73.6

⁽¹⁾ N/M = not meaningful

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Comparison of 2005 to 2004

Our net income before tax and minority interest expense for this segment decreased 2.0% from (Won)100 billion in 2004 to (Won)98 billion in 2005. In 2005, Kyongnam 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. Accordingly, net income after tax increased 73.6% from (Won)72 billion in 2004 to (Won)125 billion in 2005.

Interest and dividend income from our Kwangju Bank operations increased 10.9% from (Won)531 billion in 2004 to (Won)589 billion in 2005, primarily due to an increase in average lending volumes as a result of greater loan demand and increased efforts to market loans to small- and medium-sized enterprises. The average volume of Kwangju Bank's loans increased 14.6% from (Won)5,530 billion in 2004 to (Won)6,338 billion in 2005, 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, and 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 partially offset by a decline in average yields on interest-earning assets resulting from the general decline in market rates in Korea from 2004 to 2005.

Interest expense increased 6.1% from (Won)279 billion in 2004 to (Won)296 billion in 2005. The increase in interest expense resulted principally from a 14.4% increase in the average volume of deposits from (Won)6,549 billion in 2004 to (Won)7,495 billion in 2005, primarily as a result of increased overall demand for bank deposit products (principally certificate of deposit accounts and demand deposits) in Korea. This increase was partially offset by a decline in the average cost of interest-bearing liabilities due to the lower interest rate environment.

Provision for loan losses and credit-related commitments increased 20.0% from (Won)60 billion in 2004 to (Won)72 billion in 2005, primarily due to increased lending volumes, which was partially offset by an improvement in the asset quality of Kwangju Bank's existing consumer and small- and medium-sized enterprise loan portfolios.

Non-interest income remained relatively stable at (Won)85 billion in 2005 compared to (Won)82 billion in 2004.

Non-interest expense, including depreciation and amortization, increased 19.0% from (Won)174 billion in 2004 to (Won)207 billion in 2005. This increase was due primarily to an increase in fees paid to collection agencies, an increase in losses associated with derivatives transactions and an increase in provisions associated with other liabilities.

Comparison of 2004 to 2003

Our net income before tax and minority interest expense for this segment increased 203.0% from (Won)33 billion in 2003 to (Won)100 billion in 2004. In 2004, 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. Accordingly, net income after tax increased 26.3% from (Won)57 billion in 2003 to (Won)72 billion in 2004.

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Interest and dividend income from our Kwangju Bank operations increased 1.3% from (Won)524 billion in 2003 to (Won)531 billion in 2004, primarily due to an increase in average lending volumes as a result of greater loan demand and increased efforts to market loans to small- and medium-sized enterprises. The average volume of Kwangju Bank's loans increased 12.3% from (Won)4,924 billion in 2003 to (Won)5,530 billion in 2004, 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, and 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 partially offset by a decline in average yields on interest-earning assets resulting from the general decline in market rates in Korea from 2003 to 2004.

Interest expense decreased 3.8% from (Won)290 billion in 2003 to (Won)279 billion in 2004. The decrease in interest expense resulted principally from a decline in the average cost of interest-bearing liabilities due to the

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lower interest rate environment. This decrease was partially offset by a 1.2% increase in the average volume of deposits from (Won)6,474 billion in 2003 to (Won)6,549 billion in 2004, primarily as a result of increased overall demand for particular types of bank deposit products such as time deposits in Korea.

Provision for loan losses and credit-related commitments decreased 36.8% from (Won)95 billion in 2003 to (Won)60 billion in 2004 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 increased lending volumes.

Non-interest income remained relatively stable at (Won)82 billion in 2004 compared to (Won)75 billion in 2003.

Non-interest expense, including depreciation and amortization, also remained relatively stable at (Won)174 billion in 2004 compared to (Won)181 billion in 2003.

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 Credit Card, prior to the merger, provided a variety of credit card-related services and card loans, which are provided by Woori Bank following the merger. 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	
	2003	2004	2005	2003/2004	2004/2005
(in billions of Won)					
Income statement data					
Interest and dividend income	(Won) 576	(Won) 301	(Won) 515	(47.7)%	71.1%
Interest expense	218	82	38	(62.4)	(53.7)
Provision for loan losses and credit-related commitments	1,650	547	14	(66.9)	(97.4)
Non-interest income	419	300	55	(28.4)	(86.7)
Non-interest expense including depreciation and amortization	327	230	262	(30.0)	13.9
Net income (loss) before tax and minority interest	(1,200)	(258)	256	(78.5)	(199.2)
Income tax expense (benefit) ⁽¹⁾	121		70	N/M	100.0
Minority interest					
Net income (loss)	(Won) (1,321)	(Won) (258)	(Won) 186	(80.5)	(172.1)

⁽¹⁾ N/M = not meaningful.

Comparison of 2005 to 2004

Our net income (loss) before tax and minority interest expense for this segment changed from a loss of (Won)258 billion in 2004 to income of (Won)256 billion in 2005. In 2005, we recorded (Won)70 billion of income tax expense for this segment, as a result of our net income before tax. In 2004, we had no such income tax expense.

Interest and dividend income for this segment (which includes cash advance fees and interest on card loans) increased 71.1% from (Won)301 billion in 2004 to (Won)515 billion in 2005. This increase was attributable primarily to a reclassification of interest and fees on credit card installment purchases and merchant fees from commissions under non-interest income to interest income, as a result of a change in accounting policy under Korean GAAP in 2005.

Interest expense decreased 53.7% from (Won)82 billion in 2004 to (Won)38 billion in 2005 principally due to a decrease in interest expense on debentures and borrowings. This decrease was attributable primarily to a lower

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average volume of debentures outstanding in 2005 compared to 2004, resulting from reduced funding requirements in light of the decrease in outstanding credit card balances.

Provision for loan losses and credit-related commitments decreased 97.4% from (Won)547 billion in 2004 to (Won)14 billion in 2005, primarily due to an improvement in the asset quality, as well as a decrease in volume, of the credit card portfolio. Delinquencies decreased as a result of continued charge-offs of delinquent balances as well as increased collections on previously delinquent balances. In 2005, our credit card operations charged off credit card balances amounting to (Won)168 billion, as compared to (Won)1,027 billion in 2004.

Non-interest income, which includes commission income from credit cards, decreased 81.7% from (Won)300 billion in 2004 to (Won)55 billion in 2005. This decrease resulted principally from the reclassification of interest on credit card installment purchases and merchant fees from non-interest income to interest income in 2005, as discussed above.

Non-interest expense, which includes depreciation and amortization, increased 13.9% from (Won)230 billion in 2004 to (Won)262 billion in 2005. This increase was primarily due to an increase in fees paid to collection agencies.

Comparison of 2004 to 2003

Our net loss before tax and minority interest expense for this segment decreased 78.5% from (Won)1,200 billion in 2003 to (Won)258 billion in 2004. In 2003, we recorded (Won)121 billion of income tax expense for this segment, as a result of the write-off of deferred tax assets recognized in 2001 due to the inability to utilize such assets in light of continuing losses in this segment. In 2004, we had no such income tax expense.

Interest and dividend income for this segment (which included cash advance fees and interest on card loans) decreased 47.7% from (Won)576 billion in 2003 to (Won)301 billion in 2004. This decrease was attributable primarily to a decrease in the average volume of card advances and card loans. The average volume of outstanding credit card balances, including cash advances and card loans, decreased 40.5% from (Won)2,424 billion in 2003 to (Won)1,442 billion in 2004. This decrease resulted from measures taken by our credit card operations to reduce the overall level of their outstanding credit card receivables, including through charge-offs, by lowering credit limits for cardholders and by maintaining reduced availability of new credit card loans. The decrease in average volume in 2004 compared to 2003 was enhanced by the effect of Woori Credit Card's transfer of Kwangju Bank's former credit card operations back to Kwangju Bank in March 2004, prior to Woori Credit Card's merger with Woori Bank.

Interest expense decreased 62.4% from (Won)218 billion in 2003 to (Won)82 billion in 2004 principally due to a decrease in interest expense on debentures and borrowings. This decrease was attributable primarily to a lower average volume of debentures outstanding in 2004 compared to 2003, resulting from reduced funding requirements in light of the decrease in outstanding credit card balances, as well as a decline in borrowing costs for this segment following Woori Credit Card's merger into Woori Bank in March 2004.

Provision for loan losses and credit-related commitments decreased 66.9% from (Won)1,650 billion in 2003 to (Won)547 billion in 2004 primarily due to an improvement in the asset quality, as well as a decrease in volume, of the credit card portfolio. Delinquencies decreased as a result of continued charge-offs of delinquent balances as well as increased collections on previously delinquent balances. In 2004, our credit card operations charged off credit card balances amounting to (Won)1,027 billion, as compared to (Won)1,257 billion in 2003.

Non-interest income, which includes commission income from credit cards, decreased 28.4% from (Won)419 billion in 2003 to (Won)300 billion in 2004. This decrease resulted principally from a decrease in merchant fees due mainly to reduced charge volumes for lump-sum and installment purchases.

Non-interest expense, which includes depreciation and amortization, decreased 30.0% from (Won)327 billion in 2003 to (Won)230 billion in 2004. This decrease was primarily due to decreases in salaries and in commissions paid in connection with our credit card operations.

Table of Contents**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. However, because the acquisition occurred toward the end of the year, it did not have a material impact on our results of operations for this segment in 2004. Prior to this acquisition, our securities brokerage services segment consisted of the operations of Woori Securities.

	Year ended December 31,			% Change	
	2003	2004	2005	2003/2004	2004/2005
(in billions of Won)					
Income statement data					
Interest and dividend income	(Won) 24	(Won) 26	(Won) 210	8.3%	707.7%
Interest expense	4	4	93	0.0	2,225.0
Provision for loan losses and credit-related commitments (reversal of provision) ⁽¹⁾	4	3	28	(25.0)	833.3
Non-interest income	140	153	1,326	9.3	766.7
Non-interest expense including depreciation and amortization	173	171	1,176	(1.2)	591.8
Net income (loss) before tax and minority interest ⁽¹⁾	(17)	1	239	N/M	11,850.0
Income tax expense (benefit) ⁽¹⁾	(4)	1	72	N/M	7,100.0
Minority interest			7		N/M
Net income (loss) ⁽¹⁾	(Won) (13)		160	N/M	N/M

⁽¹⁾ N/M = not meaningful.

Comparison of 2005 to 2004

Our net income before tax and minority interest expense for this segment increased from (Won)1 billion in 2004 to (Won)239 billion in 2005, primarily as a result of the acquisition of LGIS and its operations, the effects of which were fully reflected commencing in 2005.

Interest and dividend income for this segment increased 707.7% from (Won)26 billion in 2004 to (Won)210 billion in 2005, primarily as a result of the acquisition of LGIS and its operations.

Interest expense increased from (Won)4 billion in 2004 to (Won)93 billion in 2005, primarily as a result of the acquisition of LGIS and its operations.

Provision for loan losses and credit-related commitments increased 833.3% from (Won)3 billion in 2004 to (Won)28 billion in 2005, primarily as a result of the acquisition of LGIS and its operations.

Non-interest income, which includes commission income from our brokerage operations, increased 766.7% from (Won)153 billion in 2004 to (Won)1,326 billion in 2005, primarily as a result of the acquisition of LGIS and its operations.

Non-interest expense, which includes depreciation and amortization, increased 591.8% from (Won)171 billion in 2004 to (Won)1,176 billion in 2005, primarily as a result of the acquisition of LGIS and its operations.

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Our net income (loss) before tax and minority interest expense for this segment changed from a (Won)17 billion net loss in 2003 to a (Won)1 billion net gain in 2004.

Interest and dividend income for this segment remained relatively stable at (Won)26 billion in 2004 compared to (Won)24 billion in 2003.

Interest expense also remained stable at (Won)4 billion for both 2003 and 2004.

Provision for loan losses and credit-related commitments also remained relatively stable at (Won)3 billion in 2004 compared to (Won)4 billion in 2003.

Non-interest income, which includes commission income from our brokerage operations, increased 9.3% from (Won)140 billion in 2003 to (Won)153 billion in 2004. This increase resulted principally from gains recognized by Woori Securities on sales during 2004 of stock of our holding company, which Woori Securities had received in connection with the acquisition by the holding company of the minority interest it did not own in Woori Securities.

Non-interest expense, which includes depreciation and amortization, remained relatively stable at (Won)171 billion in 2004 compared to (Won)173 billion in 2003.

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, 2005 except Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, including principally Woori Finance Information System, Woori F&I, Woori Asset Management (which was created as a result of the merger of our subsidiary, Woori Investment Trust Management, into LGITM in March 2005), two special purpose companies and a number of other smaller subsidiaries, none of which constituted a separate reportable segment.

	Year ended December 31,			% Change	
	2003	2004	2005	2003/2004	2004/2005
	(in billions of Won)				
Income statement data					
Interest and dividend income	(Won) 80	(Won) 46	(Won) 37	(42.5)%	(19.6)%
Interest expense	163	172	144	5.5	(15.8)

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Provision for loan losses and credit-related commitments (reversal of provision) ⁽¹⁾	12	(2)	(1)	N/M	(50.0)
Non-interest income	672	1,848	2,249	175.0	21.7
Non-interest expense including depreciation and amortization	342	380	342	11.1	(10.0)
	<u> </u>	<u> </u>	<u> </u>		
Net income (loss) before tax and minority interest	235	1,344	1,801	471.9	33.9
Income tax expense (benefit)	11	11	27	0.0	145.5
Minority interest ⁽¹⁾	2	2	2	0.0	(50.0)
	<u> </u>	<u> </u>	<u> </u>		
Net income	(Won) 222	(Won) 1,331	(Won) 1,772	500.0	33.0
	<u> </u>	<u> </u>	<u> </u>		

⁽¹⁾ N/M = not meaningful.

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Comparison of 2005 to 2004

Our net income before tax and minority interest expense for this segment increased 33.9% from (Won)1,344 billion in 2004 to (Won)1,801 billion in 2005.

Interest and dividend income decreased 19.6% from (Won)46 billion in 2004 to (Won)37 billion in 2005. This decrease was primarily due to a decrease in average loan volumes in 2005 compared to 2004 due to sales of loans held by the special purpose companies included in this segment.

Interest expense decreased 15.8% from (Won)172 billion in 2004 to (Won)144 billion in 2005. 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 decreased 50.0% from (Won)2 billion in 2004 to (Won)1 billion in 2005.

Non-interest income increased 21.7% from (Won)1,848 billion in 2004 to (Won)2,249 billion in 2005. This increase was attributable primarily to gains recorded by Woori Finance Holdings in 2005 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 10.0% from (Won)380 billion in 2004 to (Won)342 billion in 2005 primarily due to a decrease in administrative expenses and a decrease in losses attributed to derivatives trading at the holding company level.

Comparison of 2004 to 2003

Our net income before tax and minority interest expense for this segment increased 471.9% from (Won)235 billion in 2003 to (Won)1,344 billion in 2004.

Interest and dividend income decreased 42.5% from (Won)80 billion in 2003 to (Won)46 billion in 2004. This decrease was primarily due to a decrease in average loan volumes in 2004 compared to 2003 due to sales of loans held by the special purpose companies included in this segment.

Interest expense increased 5.5% from (Won)163 billion in 2003 to (Won)172 billion in 2004. This increase was primarily due to an increase in borrowings and capital leases of Woori Finance Information System.

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Provision for loan losses changed from a (Won)12 billion provision in 2003 to a (Won)2 billion reversal of provision in 2004. The change was primarily due to a decrease in loan volume as a result of sales of loans held by the special purpose companies included in this segment, as described above.

Non-interest income increased 175.0% from (Won)672 billion in 2003 to (Won)1,848 billion in 2004. This increase was attributable primarily to gains recorded by Woori Finance Holdings in 2004 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 11.1% from (Won)342 billion in 2003 to (Won)380 billion in 2004 primarily due to an increase in administrative expenses, including mainly fees for outsourced information and technology services.

Table of Contents**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	
	2003	2004	2005	2003/2004	2004/2005
	(in billions of Won)				
Cash and cash equivalents ⁽¹⁾	(Won) 5,399	(Won) 4,315	(Won) 8,280	(20.1)%	91.9%
Restricted cash ⁽¹⁾	373	388	376	4.0	(3.1)
Interest-bearing deposits in other banks	1,640	990	1,553	(39.6)	56.9
Call loans and securities purchased under resale agreements	1,127	1,499	1,426	33.0	(4.9)
Trading securities	4,291	6,989	4,889	62.9	(30.0)
Available-for-sale securities	12,408	12,302	18,288	(0.9)	48.7
Held-to-maturity securities	9,802	8,406	9,638	(14.2)	14.7
Other investment assets	793	1,138	1,397	43.5	22.8
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	40,642	42,445	47,232	4.4	11.3
Lease financing	222	132	75	(40.5)	(43.2)
Trade financing	6,922	7,073	7,172	2.2	1.4
Other commercial ⁽²⁾	4,254	4,270	4,727	0.4	10.7
Total commercial	52,039	53,920	59,206	3.6	9.8
Consumer:					
General purpose household ⁽³⁾	26,758	27,619	34,906	3.2	26.4
Mortgage	3,599	4,683	5,458	30.1	16.5
Credit cards	3,964	2,128	2,092	(46.3)	(1.7)
Total consumer	34,321	34,430	42,456	0.3	23.3
Total domestic	86,361	88,350	101,662	2.3	15.1
Foreign:					
Commercial:					
Commercial and industrial	1,885	1,730	2,316	(8.2)	33.9
Trade financing	63	104	76	65.1	(26.9)
Total commercial	1,947	1,834	2,392	(5.8)	30.4
Consumer:	84	305	76	263.1	(75.1)
Total foreign	2,031	2,139	2,468	5.3	15.4
Deferred origination costs	56	36	31	(35.7)	(13.9)
Less: unearned income	(26)	(14)	(7)	(46.2)	(50.0)
Less: allowance for loan losses	(2,834)	(1,806)	(1,525)	(36.3)	(15.6)

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Total loans, net	85,587	88,705	102,630	3.6	15.7
Due from customers on acceptances	421	338	355	(19.7)	5.0
Premises and equipment, net	2,151	2,110	2,060	(1.9)	(2.4)
Accrued interest and dividends receivable	747	558	703	(25.3)	26.0
Assets held for sale ⁽⁴⁾		26	49	N/M	88.5
Goodwill ⁽⁴⁾	25	22	48	(12.0)	118.2
Other assets	2,850	3,128	3,223	9.8	3.0
	<u> </u>	<u> </u>	<u> </u>		
Total assets	(Won) 127,613	(Won) 130,914	(Won) 154,915	2.6	18.3
	<u> </u>	<u> </u>	<u> </u>		

⁽¹⁾ 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 Note 1 of the notes to our consolidated financial statements.

⁽²⁾ Other commercial loans include bills bought in foreign currency and overdrafts.

⁽³⁾ Includes home equity loans.

⁽⁴⁾ N/M= Not meaningful.

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

Table of Contents*Comparison of 2005 to 2004*

Our total assets increased 18.3% from (Won)130,914 billion as of December 31, 2004 to (Won)154,915 billion as of December 31, 2005 principally due to a 15.1% increase in domestic commercial loans and consumer credits (including mortgage loans and general purpose household loans) from (Won)88,350 billion as of December 31, 2004 to (Won)101,662 billion as of December 31, 2005 and a 48.7% increase in available-for-sale securities from (Won)12,302 billion as of December 31, 2004 to (Won)18,288 billion as of December 31, 2005. These increases were partially offset by a 30.0% decrease in trading securities from (Won)6,989 billion as of December 31, 2004 to (Won)4,889 billion as of December 31, 2005.

Comparison of 2004 to 2003

Our total assets increased 2.6% from (Won)127,613 billion as of December 31, 2003 to (Won)130,914 billion as of December 31, 2004 principally due to a 62.9% increase in trading securities from (Won)4,291 billion as of December 31, 2003 to (Won)6,989 billion as of December 31, 2004 and a 2.3% increase in domestic commercial loans and consumer credits (including mortgage loans and general purpose household loans) from (Won)86,361 billion as of December 31, 2003 to (Won)88,350 billion as of December 31, 2004. These increases in loan volumes were partially offset by a decrease in the volume of credit card receivables. These increases were also partially offset by a 14.2% decrease in held-to-maturity securities from (Won)9,802 billion as of December 31, 2003 to (Won)8,406 billion as of December 31, 2004, a 20.1% decrease in cash and cash equivalents from (Won)5,399 billion as of December 31, 2003 to (Won)4,315 billion as of December 31, 2004 and a 39.6% decrease in interest-bearing deposits in other banks from (Won)1,640 billion as of December 31, 2003 to (Won)990 billion as of December 31, 2004.

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	
	2003	2004	2005	2003/2004	2004/2005
	(in billions of Won)				
Deposits					
Interest-bearing	(Won) 85,482	(Won) 86,339	(Won) 99,609	1.0%	15.4%
Non-interest-bearing	3,521	3,714	4,538	5.5	22.2
Call money	412	689	326	67.2	(52.7)
Trading liabilities	473	1,628	1,339	244.2	(17.8)
Acceptances outstanding	421	338	355	(19.7)	5.0
Other borrowed funds	9,345	9,115	9,909	(2.5)	8.7
Secured borrowings	4,321	2,352	2,557	(45.6)	8.7
Long-term debt	14,917	15,662	21,850	5.0	39.5
Accrued interest payable	1,618	1,713	1,721	5.9	0.5
Liabilities held for sale ⁽¹⁾				N/M	N/M
Other liabilities	3,218	2,862	4,379	(11.1)	53.0

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Total liabilities	123,728	124,412	146,583	0.6	17.8
Minority interest	229	38	11	(83.4)	(71.1)
Stockholders' equity	3,656	6,464	8,321	76.8	28.7
	<u> </u>	<u> </u>	<u> </u>		
Total liabilities, minority interest and stockholders' equity	(Won) 127,613	(Won) 130,914	(Won) 154,915	2.6	18.3
	<u> </u>	<u> </u>	<u> </u>		

(1) N/M = not meaningful.

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

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Comparison of 2005 to 2004

Our total liabilities increased 17.8% from (Won)124,412 billion as of December 31, 2004 to (Won)146,583 billion as of December 31, 2005. The increase was primarily due to increases in interest-bearing deposits and long-term debt. Our interest-bearing deposits increased 15.4% from (Won)86,339 billion as of December 31, 2004 to (Won)99,609 billion as of December 31, 2005, primarily due to increases in certificate of deposit and other time deposits. Our long-term debt increased 39.5% from (Won)15,662 billion as of December 31, 2004 to (Won)21,850 billion as of December 31, 2005, primarily due to increases in debentures.

Our stockholders' equity increased by 28.7% from (Won)6,464 billion as of December 31, 2004 to (Won)8,321 billion as of December 31, 2005. This increase resulted principally from a substantial reduction in our accumulated deficit, which was attributable to the net income we generated in 2005. In addition, approximately 9,560 thousand shares of our common stock were issued as a result of the conversion of outstanding convertible bonds held by an affiliate of Lehman Brothers, which in the aggregate added (Won)62 billion to our stockholders' equity. The increase was enhanced by a (Won)110 billion of net unrealized gains on available-for-sale securities.

Comparison of 2004 to 2003

Our total liabilities increased 0.6% from (Won)123,728 billion as of December 31, 2003 to (Won)124,412 billion as of December 31, 2004. The increase was primarily due to increases in trading liabilities, interest-bearing deposits, and long-term debt. Our trading liabilities increased 244.2% from (Won)473 billion as of December 31, 2003 to (Won)1,628 billion as of December 31, 2004. Our interest-bearing deposits increased 1.0% from (Won)85,482 billion as of December 31, 2003 to (Won)86,339 billion as of December 31, 2004, primarily due to increases in certificate of deposit and other time deposits.

Our stockholders' equity increased by 76.1% from (Won)3,656 billion as of December 31, 2003 to (Won)6,464 billion as of December 31, 2004. This increase resulted principally from a substantial reduction in our accumulated deficit, which was attributable to the net income we generated in 2004. The increase was enhanced by a reduction in our deficit equity relating to the use of net operating loss carry-forwards with respect to our subsidiaries, as well as (Won)124 billion of net unrealized gains on available-for-sale securities. In 2004, we also issued approximately 8,571 thousand shares of our common stock in connection with the minority interest in Woori Securities that we did not own, as well as approximately 12,379 thousand shares of our common stock as a result of the conversion of outstanding convertible bonds held by an affiliate of Lehman Brothers, which in the aggregate added (Won)69 billion to our stockholders' equity.

Realized and Unrealized Losses on Investment Securities

Gross Realized Losses

In 2005, we recognized other-than-temporary impairment losses on equity securities and debt securities of (Won)12 billion and (Won)43 billion, respectively. Most of these losses resulted primarily from an increase in the benchmark interest rate with respect to debt securities in 2005 compared to 2004.

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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

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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 2005 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 2005, the amount of the loss recorded at the sales date was (Won)90 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, 2005, the amount of gross unrealized losses on available-for-sale securities included in accumulated other comprehensive income in stockholders' equity was (Won)54 billion. As of that date, we also had (Won)67 billion of gross unrealized losses related to held-to-maturity securities, none of which was recorded in our consolidated financial statements. 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, 2005, 26.3% (based on fair value) were investment grade, none were below investment grade and 73.7% were not rated. At December 31, 2005, unrealized losses from fixed maturity securities that were below investment grade or not rated represented approximately 31.5% of gross unrealized losses on such securities. We had no material unrealized losses on individual fixed maturity securities or equity securities at December 31, 2005.

As of December 31, 2005, 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	Total
	(in billions of Won)		
Less than one year	(Won) 119	1	(Won) 120
More than one year	1		1
Total gross unrealized losses	(Won) 120	1	(Won) 121

Table of Contents***Liquidity***

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Deposits amounted to (Won)89,003 billion as of December 31, 2003, (Won)90,053 billion as of December 31, 2004 and (Won)104,146 billion as of December 31, 2005, which represented approximately 75.4%, 76.8% and 75.0% 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 12.6%, 13.3% and 15.7% of our total funding as of December 31, 2003, 2004 and 2005, respectively. Secured borrowings represented 3.7%, 1.6% and 1.8% of our total funding as of December 31, 2003, 2004 and 2005, respectively. Other borrowed funds, which are borrowings with original maturities of less than one year, represented 7.9%, 7.8% and 7.1% of our total funding as of December 31, 2003, 2004 and 2005, 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](#).

Starting from January 1, 1999, the Financial Supervisory Commission required each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require each of our banking and credit card 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)553 billion for 2003, (Won)700 billion for 2004 and (Won)78 billion for 2005. See [Item 3D. Risk Factors Risks relating to our financial holding company structure and strategy](#).

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. We financed these acquisitions through interim dividends of (Won)400 billion from Woori Bank. 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. See [Item 4B. Business Overview Capital Markets Activities Securities Brokerage](#).

Table of Contents**Contractual Obligations and Off-Balance Sheet Arrangements**

The following table sets forth our contractual obligations as of December 31, 2005:

	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) 21,877	(Won) 3,515	(Won) 11,478	(Won) 4,122	(Won) 2,762
Deposits ⁽¹⁾	63,905	55,814	3,838	916	3,337
Capital (finance) lease obligations	26	14	9	3	
Operating lease obligations	181	91	31	30	29
Purchase obligations	318	57	111	115	35
Secured borrowings	2,557	2,052	269	236	0
Employee severance plan obligations	376	0	0	3	373
Total	(Won) 89,240	(Won) 61,543	(Won) 15,736	(Won) 5,425	(Won) 6,536

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

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,		
	2003	2004	2005
(in billions of Won)			
Guarantees	(Won) 1,666	(Won) 1,276	(Won) 1,793

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Commercial letters of credit	3,137	2,911	2,666
Unused lines of credit:			
Commercial	20,152	26,450	40,082
Credit cards ⁽¹⁾	9,173	14,359	14,223
Consumer	4,716	4,823	4,925
Commitments to extend credit:			
Original term to maturity of less than one year	176	31	
Original term to maturity of more than one year	1,081	1,320	1,749
Retained interests in special purpose entities	113	199	182
Credit facilities to special purpose entities ⁽²⁾	567	1,198	2,298
Investments in special purpose entities ⁽²⁾	606	864	1,559
Investments in variable interest entities	365	85	384

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

⁽²⁾ Structured by third parties.

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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, 2005, we had established allowances for possible losses of (Won)128 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 Supervisory Commission. Those requirements were formulated based on, and are consistent in all material respects with, the capital adequacy accord reached by the Basel Committee of Banking Supervision, Bank for International Settlements in 1988. These subsidiaries are required to maintain a minimum ratio of total capital (Tier I and Tier II capital, less 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. The Bank for International Settlements recently adopted changes to its capital adequacy standards to take into account market risk from equity securities, foreign exchange and derivatives instruments held by banks. These changes became applicable to most Korean banks commencing in 2002. 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 Supervisory Commission's guidelines.

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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, Kwangju Bank and Woori Investment Bank, as of December 31, 2003, 2004 and 2005, based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31,		
	2003	2004	2005
(in billions of Won)			
Woori Bank			
Tier I capital			
Paid-in capital	(Won) 2,853	(Won) 3,180	(Won) 3,180
Capital reserves	656	466	465
Retained earnings	1,579	3,177	3,979
Minority interests in consolidated subsidiaries	14	23	3
Consolidated adjustment credit/debit			
Others	(332)	(893)	(374)
Total Tier I capital	4,770	5,953	7,253
Tier II capital			
Revaluation reserves			
Allowance for loan losses ⁽¹⁾	672	665	943
Subordinated debt ⁽²⁾	1,035	1,791	1,660
Valuation gain on investment securities	158	356	675
Others	1,259	574	
Investment in non-consolidated equity investees ⁽³⁾	(42)	(45)	(83)
Total Tier II capital	3,082	3,341	3,195
Total core and supplementary capital	(Won) 7,851	(Won) 9,294	(Won) 10,448
Risk-weighted assets			
On-balance sheet	(Won) 66,589	(Won) 73,512	(Won) 86,224
Off-balance sheet	3,329	2,666	3,485
Total	(Won) 69,918	(Won) 76,178	(Won) 89,709
Tier I capital ratio	6.82%	7.81%	8.09%
Tier II capital ratio	4.41	4.39	3.56
Capital adequacy ratio	11.23	12.20	11.65

⁽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 Supervisory Commission.

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	<u>Kyongnam Bank</u>	<u>Kwangju Bank</u>
Tier I capital ratio	7.73%	6.20%
Tier II capital ratio	4.00	4.52
Capital adequacy ratio	11.69	10.72

As of December 31, 2004

	<u>Kyongnam Bank</u>	<u>Kwangju Bank</u>
Tier I capital ratio	8.33%	6.93%
Tier II capital ratio	3.06	4.88
Capital adequacy ratio	11.34	11.81

As of December 31, 2005

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

In December 2004, the Financial Supervisory Service announced that it would implement Basel II in Korea by the end of 2007. 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 will 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 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, which Kyongnam Bank and Kwangju Bank have chosen to use a standardized approach. Since Woori Bank will be implementing an internal ratings-based approach for the first time in connection with its implementation of Basel II, its internal rating model may require a significant increase in its capital requirements under Korean GAAP, which will require it to either improve its asset quality or raise additional capital.

Recent Accounting Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 156, Accounting for Servicing of Financial Assets an amendment of SFAS No. 140

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In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, Accounting for Servicing of Financial Assets an amendment of SFAS No. 140. SFAS No. 156 requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to choose one of two methods when subsequently measuring its servicing assets and servicing liabilities: (1) the amortization method or (2) the fair value measurement method. The amortization method existed under SFAS No. 140 and remains unchanged in (1) allowing entities to amortize their servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and (2) requiring the assessment of those servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date. The fair value measurement method allows entities to measure their servicing assets or servicing

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liabilities at fair value on each reporting date and report changes in fair value in earnings in the period in which the change occurs. The statement is effective for fiscal years beginning after September 15, 2006. The adoption of the statement is not expected to have a material impact on our financial position, operating results or cash flows.

SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of SFAS No. 133 and 140

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* an amendment of SFAS No. 133 and 140, which permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133 regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective for all instruments acquired or issued as of the first fiscal year beginning after September 15, 2006 and may be applied to certain other financial instruments held prior to the adoption date. Earlier adoption is permitted as of the beginning of an entity's fiscal year provided that the entity has not yet issued financial statements. The adoption of the statement is not expected to have a material impact on our financial position, operating results or cash flows.

FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In March 2004, the Emerging Issue Task Force (EITF) issued EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. EITF Issue No. 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on investments in debt and equity securities. In September 2004, the FASB issued FSP EITF Issue 03-1-1, *Effective Date of Paragraphs 10-20 of EITF Issue 03-1*, which deferred the effective date of the recognition and measurement provisions of the consensus until further guidance is issued.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and FAS 124-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, revising the recognition and measurement provisions of EITF Issue No. 03-1. This FSP clarified and reaffirmed existing guidance as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Certain disclosures about unrealized losses on available-for-sale debt and equity securities that have not been recognized as other-than-temporary impairments are required under the FSP. The FSP is effective for fiscal years beginning after December 15, 2005. The adoption of the FSP did not have a significant impact on our financial position, operating results or cash flows.

The disclosures required by EITF Issue No. 03-1 are included in notes 9 and 10 of the notes to our consolidated financial statements.

EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.

In June 2005, the EITF of the FASB issued EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF Issue No. 04-5 provides that the general partner(s) is presumed to control the limited partnership, unless the limited partners possess either substantive participating rights or the substantive ability to dissolve the limited partnership or otherwise remove the general partner(s) without cause (kick-out rights). Kick-out rights are substantive if they can be exercised by a simple majority of the limited partners' voting interests. The guidance applies to general partners of

all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified after June 29, 2005, and to general partners in all other limited partnerships no later than the beginning of the first reporting period in fiscal years beginning after

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December 15, 2005. The adoption of the guidance did not have a material impact on our financial position, operating results or cash flows.

SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections* a replacement of APB Opinion No. 20 and FASB Statement No. 3. SFAS No. 154 generally requires retrospective application to prior periods financial statements of all voluntary changes in accounting principle and changes required when a new pronouncement does not include specific transition provisions. The statement applied to us beginning January 1, 2006 and did not have a material impact on our financial position, operating results or cash flows.

SFAS No. 123 (Revised 2004), Share-Based Payment and Staff Accounting Bulletin No. 107, Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation*, and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on their fair value. In April 2005, the U.S. Securities and Exchange Commission issued a rule which delayed the required effective date to the beginning of an entity's fiscal year which begins after June 15, 2005. Accordingly, we adopted SFAS 123R effective January 1, 2006, using the modified prospective method of transition. This method requires the provisions of SFAS 123R to be applied to new awards and awards modified, repurchased or cancelled after the effective date. Additionally, compensation expense attributable to any unvested awards outstanding at the date of adoption must be recognized over the remaining requisite service period. In November 2005, the FASB issued FSP No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. The FSP provides a transition election for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R which may be made up to one year from the initial adoption of SFAS 123R. The adoption of the statement did not have a significant impact on our financial position, operating results or cash flows.

On March 29, 2005, the U.S. Securities and Exchange Commission released Staff Accounting Bulletin No. 107, *Share-Based Payment* (SAB No. 107), which provides guidance on several technical issues regarding the required adoption of SFAS No. 123R. We have adopted SAB No. 107 on January 1, 2006 in conjunction with the adoption of SFAS No. 123R. Compliance with the bulletin did not have a material impact upon our financial position, operating results or cash flows.

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, our inception date is March 27, 2001, which is the date of establishment of the financial holding company.

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 Supervisory Commission.

Table of Contents**Consolidated income statement data under Korean GAAP**

	As of December 31,			
	2003 ⁽¹⁾	2004 ⁽²⁾	2005 ⁽²⁾	2005 ⁽³⁾
	(in billions of (Won), except per share data)		(in millions of US\$, except per share data)	
Interest and dividend income ⁽⁴⁾	(Won) 7,564	(Won) 6,986	(Won) 7,689	US\$ 7,613
Interest expense	3,842	3,647	3,736	3,699
Net interest income	3,722	3,339	3,953	3,914
Provision for loan losses	2,679	1,409	562	556
Net interest income after provision for loan losses	1,043	1,930	3,391	3,358
Commission income	1,150	1,237	1,274	1,261
Other non-interest income	1,690	5,136	5,295	5,243
Non-interest expense	3,740	7,136	7,929	7,850
Operating income	143	1,167	2,031	2,012
Non-operating income	586	458	573	567
Non-operating expense	498	391	458	453
Income (loss) before income tax expense	231	1,234	2,146	2,126
Income tax expense (benefit)	179	(57)	312	309
Income (loss) before minority interests	52	1,291	1,834	1,817
Minority interest in earnings of consolidated subsidiaries	4	1	(146)	(145)
Net income	(Won) 56	(Won) 1,292	(Won) 1,688	US\$ 1,672
Per common share data:				
Earnings per share-basic	(Won) 73	(Won) 1,655	(Won) 2,099	US\$ 2.078
Earnings per share-diluted	73	1,612	2,095	2.074
Cash dividends per share ⁽⁵⁾	100	150	400	0.396
Stock dividends per share				

(1) Under Korean GAAP, effective from 2003, interest and dividend income from asset-backed securities issued by special purpose entities was classified as non-interest income. In prior years, such income was classified as interest and dividend income. In 2003, 2004 and 2005, interest and dividends from asset-backed securities issued by our special purpose entities amounted to (Won)19 billion, (Won)27 billion and (Won)101.4 billion, respectively.

(2) Under Korean GAAP, effective from 2004, the difference between the book value of a loan and the proceeds received in connection with a sale of such loan was recognized as non-interest income or non-interest expense. In prior periods, such difference was adjusted through a decrease or an increase in the provision for loan losses. In 2004, non-interest income and non-interest expense recognized through the sale of loans amounted to (Won)32 billion and (Won)167 billion, respectively. In 2005, non-interest income and non-interest expense recognized through the sale of loans amounted to (Won)129 billion and (Won)162 billion, respectively.

(3) Won amounts are expressed in U.S. dollars at the rate of (Won)1,010.0 to US\$1.00, the noon buying rate in effect on December 30, 2005 as quoted by the Federal Reserve Bank of New York in the United States.

(4) 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. Amounts for 2003 and 2004 have not been restated in our financial statements for 2003 and 2004 in accordance with these reclassifications.

(5) With respect to shares of common stock held by the KDIC, we paid cash dividends of (Won)100 per share of common stock in 2003, (Won)150 per share of common stock in 2004 and (Won)400 per share of common stock in 2005.

Table of Contents*Consolidated balance sheet data under Korean GAAP*

	As of December 31,			
	2003	2004	2005	2005 ⁽¹⁾
	(in billions of Won)			(in millions of US\$)
Cash and due from banks	(Won) 6,472	(Won) 6,850	(Won) 11,224	US\$ 11,113
Trading securities	2,728	6,701	7,694	7,618
Investment securities	24,279	21,852	29,999	29,702
Loans	88,342	93,796	108,643	107,567
Less: allowance for loan losses and present value discounts	(2,265)	(2,027)	(1,705)	(1,688)
Fixed assets	2,735	2,647	2,685	2,658
Other assets	6,477	6,812	6,003	5,944
Total assets	(Won) 128,768	(Won) 136,631	(Won) 164,543	US\$ 162,914
Deposits	(Won) 89,050	(Won) 92,149	(Won) 107,088	US\$ 106,028
Borrowings	12,813	13,286	16,508	16,344
Debentures, net of discounts	12,195	13,687	18,813	18,627
Other liabilities	9,012	8,815	11,029	10,920
Total liabilities	123,070	127,937	153,438	151,919
Minority interest in consolidated subsidiaries	196	1,253	1,383	1,369
Stockholders' equity	5,502	7,441	9,722	9,626
Total liabilities, minority interest and stockholders' equity	(Won) 128,768	(Won) 136,631	(Won) 164,543	US\$ 162,914

⁽¹⁾ Won amounts are expressed in U.S. dollars at the rate of (Won)1,010.0 to US\$1.00, the noon buying rate in effect on December 30, 2005 as quoted by the Federal Reserve Bank of New York in the United States.

Table of Contents**Ratios under Korean GAAP**

	Year ended December 31,		
	2003	2004	2005
	(Percentages)		
Woori Finance Holdings:			
Net income as a percentage of:			
Average total assets	0.05%	0.97%	1.08%
Average stockholders' equity	1.00	19.92	8.14
Dividend payout ratio ⁽¹⁾	38.28	9.24	19.06
Net interest spread ⁽²⁾	3.18	2.68	2.87
Net interest margin ⁽³⁾	3.16	3.00	3.00
Cost-to-income ratio ⁽⁴⁾	41.75	46.69	75.36
Average stockholders' equity as a percentage of average total assets	4.56	4.87	13.26
Woori Bank:			
Net income as a percentage of:			
Average total assets	1.42	1.89	1.01
Average stockholders' equity	25.48	29.62	11.31
Dividend payout ratio ⁽¹⁾	46.54	20.03	41.48
Net interest spread ⁽²⁾	3.18	3.53	2.82
Net interest margin ⁽³⁾	3.20	2.99	3.01
Cost-to-income ratio ⁽⁴⁾	42.11	43.59	78.99
Average stockholders' equity as a percentage of average total assets	5.58	5.72	8.94

⁽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⁾ Cost-to-income ratio, a measure of a bank's or a financial institution's efficiency, represents the ratio of non-interest expense, net of provisions, to the sum of net interest income and non-interest income.

Table of Contents**Capital, liquidity and leverage ratios under Korean GAAP**

	December 31,		
	2003	2004	2005
	(Percentages)		
Capital ratios :			
Requisite capital ratio ⁽¹⁾	8.00%	8.00%	8.00%
Total capital adequacy ratio of Woori Bank ⁽²⁾	11.23	12.20	11.65
Tier I ⁽²⁾	6.82	7.81	8.09
Tier II ⁽²⁾	4.41	4.39	3.56
Liquidity ratios :			
Won liquidity ratio of Woori Finance Holdings ⁽³⁾	2,092.49	503.70	609.85
Won liquidity ratio of Woori Bank ⁽⁴⁾	111.88	119.95	118.97
Foreign currency liquidity ratio of Woori Bank ⁽⁵⁾	100.10	109.05	107.21
Leverage ratio:			
Ratio of acquisition price to net assets of Woori Finance Holdings ⁽⁶⁾	65.72	78.18	61.20

(1) As a financial holding company, we are subject to minimum capital requirements as reflected in the requisite capital ratio. Under the guidelines issued by the Financial Supervisory Commission applicable to financial holding companies, we, at the holding company level, are required to maintain a minimum requisite capital ratio of 100%. The requisite capital ratio represents the ratio of the net aggregate amount of our equity capital to the aggregate amount of requisite capital. This computation is based on our consolidated financial statements prepared in accordance with Korean GAAP.

(2) Woori Bank accounted for 76.8% of our total assets as of December 31, 2005. The capital adequacy ratio of Woori Bank is computed in accordance with the guidelines issued by the Financial Supervisory Commission. Under the guidelines of the Financial Supervisory 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.

Table of Contents*Asset quality data under Korean GAAP*

	December 31,		
	2003	2004	2005
	(in billions of Won)		
Woori Finance Holdings:			
Non-performing loans ⁽¹⁾	(Won) 2,476	(Won) 2,344	(Won) 1,575
Allowance for loan losses	2,252	2,027	1,816
Non-performing loans as a percentage of total loans	2.82%	2.53%	1.43%
Non-performing loans as a percentage of total assets	1.92	1.72	0.96
Allowance for loan losses as a percentage of non-performing loans	90.94	88.61	115.30
Allowance for loan losses as a percentage of total loans	2.56	2.24	1.65
Woori Bank:			
Non-performing loans ⁽¹⁾	(Won) 1,677	(Won) 1,772	(Won) 1,124
Non-performing loans as a percentage of total loans	2.26%	2.27%	1.23%
Non-performing loans as a percentage of total assets	1.64	1.70	0.08
Precautionary loans as a percentage of total loans	2.57	2.76	1.81
Precautionary and below loans as a percentage of total loans	4.83	5.03	3.04
Precautionary and below loans as a percentage of total assets	3.51	3.76	1.99
Allowance for loan losses as a percentage of non-performing loans	93.15	89.28	119.09
Allowance for loan losses as a percentage of precautionary and below loans	43.55	40.27	48.15
Allowance for loan losses as a percentage of total loans	2.10	2.03	1.46

⁽¹⁾ Non-performing loans are defined as those loans that are classified as substandard or below based on the Financial Supervisory Commission's asset classification criteria.

Table of Contents**Reconciliation with Korean GAAP**

Our consolidated financial statements are prepared in accordance with accounting principles and policies as summarized in Note 1 of the notes to our consolidated financial statements. These principles and policies differ in some respects from generally accepted accounting principles applicable in Korea. The following are reconciliations of net income and stockholders' equity of the consolidated statements with Korean GAAP:

	As of or for the year ended
	December 31, 2005
	(in billions of Won)
Korean GAAP net income	(Won) 1,688
1. Loans	278
2. Securities	31
3. Derivatives	(17)
4. Deferred loan costs	0
5. Fixed assets	0
6. Intangible assets	(19)
7. Tax effect of deficit equity reduction	(17)
8. Minority interest	25
9. Others	(39)
Total of adjustments	242
Tax effect of adjustments	(124)
U.S. GAAP net income	(Won) 1,806
Korean GAAP stockholders' equity	(Won) 9,722
1. Loans	73
2. Securities	(1,747)
3. Derivatives	(42)
4. Deferred loan costs	37
5. Fixed assets	(112)
6. Intangible assets	18
7. Tax effect of deficit equity reduction	25
8. Minority interest	8
9. Others	(62)
Total of adjustments	(1,802)
Tax effect of adjustments	401
U.S. GAAP stockholders' equity	(Won) 8,321

The following is a summary of the significant adjustments made to consolidated net income and stockholders' equity to reconcile the U.S. GAAP results with Korean GAAP. The numbered paragraphs below refer to the corresponding item numbers set forth above.

1. We have established the U.S. GAAP allowance for loan losses for impaired non-homogeneous loans based on (1) the present value of expected future cash flows discounted at the loan's effective interest rate, (2) the fair value of the collateral if the loan is collateral dependent or

(3) observable market prices if available. For credit card balances and consumer loans, we have established the allowance for loan losses based on an evaluation of the historical performance of the loan portfolios. Allowance for loan losses for corporate loans that are not impaired is based principally on expected loss methodology. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy.

Under Korean GAAP, the allowance for loan losses is generally established based on the classification guidelines promulgated by the Financial Supervisory Commission, which require that the minimum allowance be

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established based on the classification of the loan. We have generally used these guidelines in establishing the minimum reserves and have additionally considered new loan loss provisioning guidelines announced by the Financial Supervisory Commission in November 2004. These guidelines include a new requirement that banks take into account expected losses with respect to credits in establishing their allowances for loan losses.

This adjustment also reflects the effect of the consolidation of certain securitized loans and related reserves, which we recorded as sold under Korean GAAP.

2. Under U.S. GAAP, decreases in fair value with respect to securities classified as available-for-sale or held-to-maturity below the cost basis of an individual security and deemed to be other-than-temporary must be written off through a charge to income. In determining whether a decrease in fair value is other-than-temporary, the following are considered: the length of time and the extent to which the market value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability of the holder to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. Under Korean GAAP, when the recoverable value of available-for-sale or held-to-maturity securities is less than their amortized acquisition costs (in the case of equity securities, their acquisition costs), and there is any objective evidence of impairment, then their book value is adjusted to their recoverable amount and the amount of their amortized acquisition costs (in the case of equity securities, their acquisition costs) in excess of the recoverable amount less the amount of impairment loss already recognized in the prior periods. This is reflected in current loss as impairment loss. There are other securities which under Korean GAAP are not determined to be permanently impaired for which under U.S. GAAP the impairment has been determined to be other-than-temporary. The adjustment for the cumulative impact of this difference reduces our Korean GAAP stockholders' equity.

3. Under U.S. GAAP, to qualify for hedge accounting, derivatives must be highly effective at reducing the risk associated with the exposure being hedged. Each derivatives instrument must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively. Under Korean GAAP, the criteria that must be met in order to apply hedge accounting are less prescriptive. The majority of the derivatives hedge accounting relationships that we have established under Korean GAAP did not qualify as hedges under U.S. GAAP, except for certain derivatives which qualify as fair value hedges under the short-cut method. This adjustment reflects the effects of the reversal of the hedge accounting treatment under Korean GAAP.

4. Under U.S. GAAP, certain employee and other costs associated with originating loans are deferred and amortized as a yield adjustment over the life of the related loans, net of any related fees received. These costs relate to direct loan origination activities performed by us which include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents and closing the transaction. Prior to 2003, Korean GAAP required these origination fees to be recognized in income or expense when received or paid and did not provide for deferral. Commencing in 2003, certain origination fees and costs are required to be deferred and amortized as a yield adjustment over the life of the related loans.

5. In 1998 and 2000, we revalued certain fixed assets in accordance with Korean GAAP with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. As part of our normal operations, we occasionally dispose of fixed assets. Due to the difference in carrying value under U.S. GAAP and Korean GAAP noted above, there was an adjustment to reflect the gain or loss from the U.S. GAAP historic cost basis as opposed to the Korean GAAP carrying value.

6. Under U.S. GAAP, in connection with the acquisition of subsidiaries, we recognized the amount resulting from liabilities in excess of identified assets of the acquired subsidiaries as deficit equity which has been

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presented as a reduction of additional paid-in capital. Also, we recognized a core deposits intangible as identifiable intangible assets and amortized based on the estimated useful life.

Under Korean GAAP, we recorded the amount resulting from liabilities in excess of identified assets of the acquired subsidiaries as goodwill and amortized based on the estimated useful life.

This adjustments reflect offsetting effect of (1) amortization of core deposits intangible under U.S. GAAP and (2) reversal of amortization of goodwill under Korean GAAP.

7. Under U.S. GAAP, we recorded a tax expense related to the utilization of pre-acquisition net operating loss carry-forwards and deductible temporary differences, both of which were credited to a reduction of deficit equity and core deposit intangible. Under Korean GAAP, the utilization of such items results in a decrease of current income tax expense with a reduction in gross deferred tax assets.

8. The results of each of our subsidiaries have been affected by the conversion to U.S. GAAP from Korean GAAP. Consequently, this adjustment reflects the allocation of the other adjustments to the minority interest.

9. This adjustment reflects the effect of miscellaneous items, which are not individually material.

Item 5C. Research and Development, Patents and Licenses, etc.

Not Applicable

Item 5D. Trend Information

These matters are discussed under Item 5A and Item 5B above where relevant.

Item 5E. Off-Balance Sheet Arrangements

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

Item 5F. *Tabular Disclosure of Contractual Obligations*

See Item 5B. Liquidity and Capital Resources Financial Condition Contractual Obligations and Off-Balance Sheet Arrangements.

Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Item 6A. *Directors and Senior Management*

Board of Directors

Our board of directors has the ultimate responsibility for managing our affairs. The board currently comprises two standing directors and seven non-standing directors. Standing directors are directors who are full-time executive officers of Woori Finance Holdings, while non-standing directors are directors who are not full-time executive officers.

Our articles of incorporation provide that the board can have no more than 15 directors. Standing directors must comprise less than 50% of the total number of directors and there must be at least three non-standing directors. Each standing director is elected for a three-year term of office, and each non-standing director is elected for a one-year term of office. However, such term of office is extended until or reduced to, as the case

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may be, the close of the annual general meeting of stockholders convened in respect of the last fiscal year of the director's term of office. These terms are subject to the Korean Commercial Code, the Financial Holding Company Act and related regulations. Each director may be re-elected, subject to these laws and regulations.

Our board of directors meets regularly on a quarterly basis to discuss and resolve various corporate matters. The board may also convene for additional extraordinary meetings at the request of any of the directors.

The names and positions of our directors are set forth below. The business address of all of the directors is our registered office at 203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea.

Standing Directors

Our standing directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Date Term Ends</u>
Young-Key Hwang	54	Chairman and Chief Executive Officer	March 30, 2004	March 29, 2007
Seung Hee Park	55	Senior Managing Director and Chief Financial Officer	March 28, 2005	March 27, 2008

None of these directors are involved in any significant business activities outside Woori Finance Holdings and our subsidiaries.

Young-Key Hwang is our chairman and chief executive officer. He was elected chairman and appointed as chief executive officer in March 2004. Prior to joining Woori Finance Holdings, he was president and chief executive officer of Samsung Securities and, prior to that, president and chief executive officer of Samsung Investment Trust Management. Mr. Hwang holds a B.A. in international trade from Seoul National University and an M.Sc. from the London School of Economics.

Seung Hee Park is our senior managing director and chief financial officer. He was elected as chief financial officer in March 2005. He was senior managing director of Woori Finance Holdings and, prior to that, an executive director of KDIC and non-standing director at Korea First Bank. Mr. Park graduated from Korea Military Academy and attended the Graduate School of Public Administration at Seoul National University. Mr. Park also holds an M.B.A. from Korea University.

Non-Standing Directors

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Our non-standing directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. We currently have seven non-standing directors. All were nominated by the Non-standing Director Candidate Nomination Committee and approved by our shareholders.

Our non-standing directors are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Director Since</u>	<u>Year Term Ends ⁽¹⁾</u>
Je-Hoon Lee	66	Non-Standing Director	March 30, 2004	2007
Sung-Tae Ro	60	Non-Standing Director	March 30, 2004	2007
Sung-Kwan Huh	59	Non-Standing Director	March 28, 2006	2007
Bong-Soo Park	58	Non-Standing Director	March 28, 2006	2007
Woon-Youl Choi	56	Non-Standing Director	March 28, 2005	2007
Chung-Sook Moon	51	Non-Standing Director	March 30, 2004	2007
Sung-Hwan Bae	50	Non-Standing Director	May 18, 2004	2007

⁽¹⁾ The date on which each term will end will be the date of the general stockholders' meeting in the relevant year.

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Je-Hoon Lee has been a non-standing director since 2004. He currently is president of the Korea BBB Association and, prior to that, a member of the Financial Development Council at the Ministry of Finance and Economy, and president and chief executive officer of JoongAng Ilbo. He holds a B.A. in sociology and an M.A. in journalism from Seoul National University.

Sung-Tae Ro has been a non-standing director since 2004. He is currently the president of the Korea Economic Research Institute and, prior to that, was dean of the Business School at Myongji University and also the chief editor of The Korea Economic Daily. He holds a B.A. in economics from Seoul National University and a Ph.D. in economics from Harvard University.

Sung-Kwan Huh was elected as a non-standing director in March 2006. He is currently the president of Gwangju Institute of Science and Technology and, prior to that, was minister of Government Administration and Home Affairs. He holds a Bachelor of Business Administration from Dong-A University, and a Ph.D. in business administration from State University of New York at Buffalo.

Bong-Soo Park was elected as a non-standing director in March 2006. He is currently the executive advisor to Korea Institute for International Economics Policy and, prior to that, was president and CEO of Korea Technology Credit Guarantee Fund. He holds a Bachelor of Business Administration from Seoul National University and an M.A. in economics from George Washington University.

Woon-Youl Choi has been a non-standing director since 2005. He currently is the vice president of Sogang University and, prior to that, was a member of the Monetary Policy Committee. He holds a B.A. in business administration from Seoul National University and a Ph.D. in finance from the University of Georgia.

Chung-Sook Moon has been a non-standing director since 2004. She currently is a professor of economics at Sookmyung Women's University and, prior to that, a member of the Financial Development Review Committee of the Ministry of Finance and Economy, and a member of the Presidential Regulatory Reform Committee. She holds a B.A. in home management from Sookmyung Women's University and a Ph.D. in consumer economics from Kansas State University.

Sung-Hwan Bae has been a non-standing director since 2004. He currently is a director at KDIC and, prior to that, served at the Banking Supervisory Authority of the Bank of Korea. He holds a B.A. in business administration from Yeungnam University, an M.A. in economics from University of Illinois at Urbana-Champaign and a Ph.D. in business administration from Sung Kyun Kwan University.

If any director wishes to enter into a transaction with us in his or her personal capacity, he or she must obtain the prior approval of our board of directors. The director having an interest in the transaction may not vote at the meeting during which the board approves the transaction.

Item 6B. Compensation

The aggregate remuneration and benefits-in-kind we paid in 2005 to our chairman and chief executive officer, our other standing and non-standing directors, and our other executive officers was (Won)3,200 million. We did not set aside any amounts in 2005 for allowances for severance and retirement benefits for those directors and officers. We do not have service contracts with any of these directors or officers that

provide for benefits if employment with us is terminated.

On December 4, 2002, our board of directors approved a stock option plan for our chairman and chief executive officer and 61 of our other directors and officers and those of our subsidiaries. In accordance with this plan, we have granted stock options to our directors and officers, as well as to directors and officers of our subsidiaries, as described below. See Item 6E. Share Ownership. For all of the options granted in 2002, we will pay in cash the difference between the exercise price and the market price at the date of exercise. Restrictions on

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the grants, including continued employment for a specified period, lapse after a three-year vesting period. Once vested, options may be exercised until six years from the grant date.

In 2005, we did not grant any stock options and, accordingly, did not recognize any compensation expense for stock options granted under our stock option plan.

Item 6C. Board Practices

See Item 6A. Directors and Senior Management Board of Directors for information concerning the terms of office and contractual employment arrangements with our directors and executive officers.

Committees of the Board of Directors

We currently have eight management committees that serve under the board:

the Board of Directors Management Committee;

the Management Compensation Committee;

the Risk Management Committee;

the Audit Committee;

the Executive Management Committee;

the Ethics Management Committee;

the Non-Standing Director Candidate Nomination Committee; and

the MOU Review Committee.

The board appoints each member of these committees except for members of the Audit Committee, who are elected by our stockholders at the annual general meeting.

Board of Directors Management Committee

This committee consists of one standing director and four non-standing directors: Young-Key Hwang, Je-Hoon Lee, Sung-Tae Ro, Woon-Youl Choi and Chung-Sook Moon. The chairman is Young-Key Hwang. This committee, which functions as a steering committee, enables broad management oversight of our operations. It is responsible for the following:

setting rules and procedures for operations of our board and its various committees;

resolving issues relating to critical management-related matters like restructuring;

formulating management strategies and policies; and

determining policies to enhance our corporate governance structure.

This committee holds regular meetings every six months.

Management Compensation Committee

This committee consists of three non-standing directors: Je-Hoon Lee, Sung-Kwan Huh, and Woon-Youl Choi. The chairman is Je-Hoon Lee. It is responsible for all matters relating to the following:

management's performance in developing our business;

setting goals and targets with respect to and evaluating executive performance; and

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fixing executive compensation, including incentives and bonuses.

This committee holds regular meetings every six months.

Risk Management Committee

This committee consists of two standing directors and five non-standing directors: Young-Key Hwang, Seung Hee Park, Sung-Tae Ro, Sung-Kwan Huh, Bong-Soo Park, Woon-Youl Choi, and Sung-Hwan Bae. The chairman is Young-Key Hwang. It oversees and makes determinations on all issues relating to our group-wide, standardized risk management system. It implements policies regarding, monitors and has ultimate responsibility for managing credit, market and liquidity risk and asset and liability management. The major roles of the Group Risk Management Committee include:

determining and amending risk management policies, guidelines and limits in conformity with the strategy established by the board of directors;

determining the appropriate level of risks that we should be willing to undertake;

allocating risk capital to each subsidiary and approving our subsidiaries' risk limit requests;

reviewing our group-wide risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our subsidiaries' compliance with our risk policies.

The Group Risk Management Committee regularly receives reports from the Group Risk Management Council, which is the body that coordinates execution of the commission risk-related policies and decisions with the subsidiary-level risk management committees. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. The committee holds regular meetings every three months.

Audit Committee

This committee consists of seven non-standing directors: Je-Hoon Lee, Sung-Tae Ro, Sung-Kwan Huh, Bong-Soo Park, Woon-Youl Choi, Chung-Sook Moon and Sung-Hwan Bae. The chairman is Woon-Youl Choi. It reviews all audit and compliance-related matters and makes recommendations to our board. This committee also is responsible for the following:

formulating, executing, evaluating and managing internal audit plans (including the financial and operational audits);

approving the appointment and dismissal of the head of the audit team;

approving the appointment of external auditors and evaluating the activities carried out by external auditors;

formulating appropriate measures to correct problems identified from internal audits;

overseeing the reporting systems within our holding company structure and all disclosure rules and requirements to ensure compliance with applicable regulations; and

examining internal procedures or making decisions on material matters that are related to audits as determined by the regulatory authorities, our board or other committees.

This committee also makes recommendations on regulatory issues to the Financial Supervisory Service, if and when deemed necessary. In addition, in connection with general meetings of stockholders, the committee examines the agenda for, and financial statements and other reports to be submitted by, the board of directors to each general meeting of stockholders. The internal and external auditors report directly to the Audit Committee

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chairman. Our external auditor is invited to attend meetings of this committee when needed or when matters pertaining to the audit are discussed. The subsidiary-level Audit Committees, which review subsidiary-level internal practices, report to the Audit Council that in turn reports to this committee.

The committee holds regular meetings every three months.

Executive Management Committee

This committee consists of two standing directors: Young-Key Hwang and Seung Hee Park. The chairman is Young-Key Hwang. This committee is an operational committee that oversees decisions with respect to our operational and management matters. The committee holds meetings whenever it is deemed necessary.

Ethics Management Committee

This committee consists of two standing directors and three non-standing directors: Young-Key Hwang, Seung Hee Park, Je-Hoon Lee, Chung-Sook Moon and Sung-Hwan Bae. The chairman is Chung-Sook Moon. It is responsible for the following:

implementing our code of ethics and amending it when necessary;

managing our ethics policies, including developing procedures and standards of conduct to ensure compliance; and

evaluating our performance under our code of ethics.

This committee holds regular meetings every year.

Non-Standing Director Candidate Nomination Committee

This committee consists of one standing director and four non-standing directors: Young-Key Hwang, Je-Hoon Lee, Sung-Tae Ro, Bong-Soo Park and Woon-Youl Choi. The chairman is Sung-Tae Ro. It is responsible for the following:

searching for potential non-standing director candidates; and

reviewing and nominating non-standing director candidates.

This committee holds meetings when a non-standing director needs to be appointed.

MOU Review Committee

This committee consists of the entire board of directors: Young-Key Hwang, Seung Hee Park, Je-Hoon Lee, Sung-Tae Ro, Sung-Kwan Huh, Bong-Soo Park, Woon-Youl Choi, Chung Sook Moon and Sung-Hwan Bae. The chairman is Young-Key Hwang. It is responsible for the following:

evaluating MOU target attainment performances of us and our subsidiaries; and

overseeing and managing the MOU steering committee.

This committee holds regular meetings every three months.

Differences in Corporate Governance Practices

Pursuant to the rules of the New York Stock Exchange applicable to foreign private issuers like us that are listed on the New York Stock Exchange, we are required to disclose significant differences between the New

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York Stock Exchange's corporate governance standards and those that we follow under Korean law. The following is a summary of such significant differences.

NYSE Corporate Governance Standards

Director independence

Listed companies must have a majority of independent directors.

Executive Session

Listed companies must hold meetings solely attended by non-management directors to more effectively check and balance management directors.

Nomination/Corporate Governance Committee

Listed companies must have a nomination/corporate governance committee composed entirely of independent directors.

Compensation Committee

Listed companies must have a compensation committee composed entirely of independent directors.

Audit Committee

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 under the Exchange Act.

Audit Committee Additional Requirements

Listed companies must have an audit committee that is composed of more than three directors.

Shareholder Approval of Equity Compensation Plan

Listed companies must allow its shareholders to exercise their voting rights with respect to any material revision to the company's equity compensation plan.

Corporate Governance Guidelines

Listed companies must adopt and disclose corporate governance guidelines.

Woori Finance Holdings

The majority of our board of directors is independent (as defined in accordance with the New York Stock Exchange's standards), as seven of our nine directors are non-executive directors.

Our non-executive directors hold quarterly meetings, which coincide with the quarterly audit committee meetings, to discuss matters relating to management issues. The audit committee is comprised of seven non-executive directors.

We have established a separate non-executive director nomination committee.

We maintain a management compensation committee composed of three non-executive directors.

We maintain an audit committee comprised of seven non-executive directors. Accordingly, we are in compliance with Rule 10A-3 under the Exchange Act.

Our audit committee has seven members, as described above.

We currently have two equity compensation plans:

one providing for the grant of stock options to officers and directors; and an Employee Stock Options Program, or ESOP.

All material matters related to the granting stock options are provided in our Articles of Incorporation, and any amendments to the Articles of Incorporation are subject to shareholders' approval.

Matters related to the ESOP are not subject to shareholders' approval under Korean law.

We are currently in the process of drafting and adopting corporate governance guidelines.

Table of Contents**Code of Business Conduct and Ethics**

Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.

We have adopted a Code of Ethics and Business Conduct for Employees, a copy of which is available on our website.

Item 6D. Employees

As of December 31, 2005, we had a total of 65 full-time employees, including four officers, at our financial holding company. The following table sets forth information regarding our employees at both our financial holding company and our subsidiaries as of the dates indicated:

	As of December 31,		
	2003	2004	2005
Full-time employees	14,326	16,227	15,333
Contractual employees	7,943	5,984	6,303
Total	22,269	22,211	21,636

Approximately 56.8% of our employees are members of the Korea Financial Industry Union. Since we were established in April 2001, neither we nor any of our subsidiaries has had any significant labor disputes, although we have made certain concessions to our labor unions. See Item 3D. Risk Factors Other risks relating to our business Labor union unrest may disrupt our operations and hinder our ability to continue to reorganize and integrate our operations. In connection with our restructuring process, we have placed a high priority on improving our relationships with our employees and maintaining an atmosphere of trust and cooperation between our labor and management.

At the holding company level and at each of our subsidiaries, our employees have a labor union.

At the holding company level, the duration of our standard employment contract for both management and non-management employees is three years. Our salary system with respect to our employees is based on a combination of the agreed-upon base salary and bonuses reflecting the work productivity of each employee. We believe that the salaries we pay to our employees and management are similar to those of other large financial institutions in Korea. We evaluate employees twice a year (usually in January and July), based on our business performance and evaluations provided by co-workers and superiors. With respect to our compensation program, we do not provide housing leases or loans to our employees.

We have introduced a wage peak system as a result of an agreement reached with our employees in 2005. Under the system, an employee's wages reach a certain peak and then are gradually reduced as the employee reaches retirement age. This will allow the retirement age to be extended by one year to age 59 under the new system, while our employees' wages would be cut incrementally from age 55. We believe that this system is beneficial both for us and our employees as it will encourage early retirements and reduce costs, while allowing employees to defer their retirement by one year. We are also planning to extend a performance-based pay system to all of our employees, as it currently applies only to those who are in the position of vice chief of a department or higher.

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Although we currently do not have an employee stock ownership program, we are considering whether to establish one. We have an employee stock ownership association, which purchases our shares at the request of our employees using their own funds. We do not provide any compensation benefits to employees through such purchases, although the association is entitled to certain pre-emptive rights. See Item 10B. Memorandum and Articles of Association Pre-emptive Rights and Issuances of Additional Shares.

At our subsidiaries, the standard employment contract for management-level and certain non-management employees is three years. Employee compensation is based on a combination of the agreed-upon base salary and bonuses. The bonus system is based on individual performance and business unit performance. We believe that

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our compensation package for our subsidiaries are similar to those institutions in the same industries. We provide a wide range of benefits to our employees, including medical insurance, employment insurance, workers compensation, life insurance, financial aid for children's tuition, low-interest housing loans and pension plans.

In addition, Woori Investment & Securities contributes an amount equal to 4.5% of its employee wages, and each of its employees contributes 4.5% of his or her wages, into his or her personal pension account. In accordance with our internal policy and the Korean Labor Standard Law, employees with one year or more of service are entitled, upon termination of their employment, to receive a lump sum severance payment based upon the length of their service and the rate of pay at the time of termination. Such employees are entitled to receive a lump-sum equivalent to the average of 30 days' pay for each year of service. We make provisions for accrued severance benefits based upon the assumption that all employees terminate their employment with us at the same time. As of December 31, 2005, accrued severance benefits were (Won)430 billion, which represented 100% of the amount required under Financial Supervisory Commission guidelines. As of December 31, 2005, approximately 66.5% of accrued severance benefits were deposited with insurance companies and other banks. Under Korean law, we may not terminate full time employees except under certain circumstances.

In 2003, 2004 and 2005, we paid (Won)16 billion, (Won)17 billion and (Won)17 billion for the training of our employees in specialist areas by local and foreign training institutes.

Item 6E. Share Ownership**Common Stock**

The persons who are currently our directors or executive officers, as a group, held no shares of common stock of Woori Finance Holdings as of December 31, 2005.

Stock Options

The following table sets forth information regarding the stock options we have granted to our directors and executive officers, as well as those of our subsidiaries, as of December 31, 2005. All of the stock options listed below relate to common stock of Woori Finance Holdings.

Grant Date	Position When granted	Exercise Period		Exercise Price ⁽¹⁾	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Woori Finance Holdings							
04-Dec-02	Chairman and CEO			W11,921/			
		05-Dec-05	04-Dec-08	6,800	100,000	95,000	0
04-Dec-02	Vice Chairman			11,921/			
		05-Dec-05	04-Dec-08	6,800	80,000	0	76,000

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04-Dec-02	Six Non-Standing Directors			11,921/ 6,800	50,000	9,500	38,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Senior Managing Director			11,921/ 6,800	40,000	0	38,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Three Managing Directors			11,921/ 6,800	90,000	57,000	28,500
		05-Dec-05	04-Dec-08				
Woori Bank							
04-Dec-02	Vice Chairman and CEO			11,921/ 6,800	80,000	0	76,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Six Non-Standing Directors			11,921/ 6,800	60,000	1,500	55,500
		05-Dec-05	04-Dec-08				
04-Dec-02	Senior Executive Vice President			11,921/ 6,800	45,000	0	42,750
		05-Dec-05	04-Dec-08				
04-Dec-02	Nine Executive Vice Presidents			11,921/ 6,800	270,000	1,800	210,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Member of the Audit Committee			11,921/ 6,800	45,000	42,750	0
		05-Dec-05	04-Dec-08				

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Grant Date	Position When granted	Exercise Period		Exercise Price ⁽¹⁾	Number of Granted Options	Number of Exercised Options	Number of Exercisable Options
		From	To				
Woori Investment Bank⁽²⁾							
04-Dec-02	President			11,921/ 6,800	30,000	0	28,500
		05-Dec-05	04-Dec-08				
04-Dec-02	Three Non-Standing Directors			11,921/ 6,800	15,000	0	14,250
		05-Dec-05	04-Dec-08				
04-Dec-02	Managing Director			11,921/ 6,800	20,000	0	19,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Member of Audit Committee			11,921/ 6,800	20,000	0	19,000
		05-Dec-05	04-Dec-08				
Woori Finance Information System							
04-Dec-02	President			11,921/ 6,800	40,000	14,000	24,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Auditor			11,921/ 6,800	20,000	0	19,000
		05-Dec-05	04-Dec-08				
Woori Asset Management							
04-Dec-02	President			11,921/ 6,800	30,000	0	28,500
		05-Dec-05	04-Dec-08				
04-Dec-02	Non-Standing Director			11,921/ 6,800	5,000	0	4,750
		05-Dec-05	04-Dec-08				
Woori Capital Advisors Asset Management							
04-Dec-02	President			11,921/ 6,800	30,000	10,500	18,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Vice President			11,921/ 6,800	30,000	28,500	0
		05-Dec-05	04-Dec-08				
04-Dec-02	Auditor			11,921/ 6,800	20,000	0	19,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Two Managing Directors			11,921/ 6,800	30,000	19,500	9,000
		05-Dec-05	04-Dec-08				
Woori Credit Information							
04-Dec-02	President			11,921/ 6,800	20,000	0	19,000
		05-Dec-05	04-Dec-08				
04-Dec-02	Vice President			11,921/ 6,800	15,000	0	14,250
		05-Dec-05	04-Dec-08				
04-Dec-02	Auditor			11,921/ 6,800	15,000	0	14,250
		05-Dec-05	04-Dec-08				
04-Dec-02	Two Managing Directors			11,921/ 6,800	30,000	0	28,500
		05-Dec-05	04-Dec-08				
	Total				1,230,000	296,250	843,750

(1) Calculation formula: Exercise price = (Won)6,800 x (1 + the increase rate of the KOSPI Bank Industry Index). The increase rate of the KOSPI Banking Industry Index = ((the average closing index announced for the three months prior to the commencement of the exercise period) (the average closing index announced for the three months prior to the grant of the stock options)) / (the average closing index announced for the three months prior to the grant of the stock options).

(2) Granted prior to the merger with Woori Bank in August 2003.

Table of Contents**Item 7. MAJOR STOCKHOLDERS AND RELATED PARTY TRANSACTIONS****Item 7A. Major Stockholders**

The following table presents information regarding the beneficial ownership of our shares at December 31, 2005 by each person or entity known to us to own beneficially more than 5% of our outstanding shares:

Except as otherwise indicated, each stockholder identified by name has:

sole voting and investment power with respect to its shares; and

record and beneficial ownership with respect to its shares.

Beneficial Owner	Number of Shares of Common Stock	Percentage of Total Shares of Common Stock ⁽¹⁾	Percentage of Total Shares on a Fully Diluted Basis
KDIC	628,458,609	78.0%	78.0%

As of December 31, 2005, none of our standing and non-standing directors owned any shares of our common stock, and our executive officers, excluding standing directors, owned no shares of our common stock.

Other than as set forth above, no other person or entity known by us to be acting in concert, directly or indirectly, jointly or separately, owned 5.0% or more of the outstanding shares of our common stock or exercised control or could exercise control over us as of December 31, 2005.

Item 7B. Related Party Transactions

We regularly engage in transactions with entities affiliated with the government, which as of December 31, 2005 owned 78.0% of our shares through the KDIC. Generally, these transactions include the extension of loans, the purchase of debt securities and other ordinary course activities relating to our banking business. For a description of such transactions, see Item 4B. Business Overview Assets and Liabilities.

We and our subsidiaries have entered into memoranda of understanding with the KDIC, under which we and our subsidiaries must meet business normalization targets or specific financial targets, or the KDIC has the right to impose sanctions on our directors or employees or to require us or our subsidiaries to take certain actions. In addition, as of December 31, 2005, we owned (Won)3,044 billion of debentures issued by the KDIC, representing 9.5% of our investment securities. As of December 31, 2005, we also had loans outstanding to the KDIC in the aggregate amount of (Won)25.6 billion. These loans were provided in connection with the public funds injected into us and our subsidiaries. The loans bore interest at

the weighted average rate of 4.53% in 2005.

As of December 31, 2003, we had loans outstanding to our executive officers and directors in the aggregate amount of (Won)17 million. As of December 31, 2004, we had loans outstanding to our executive officers and directors in the aggregate amount of (Won)49 million. As of December 31, 2005, we had loans outstanding to our executive officers and directors in the aggregate amount of (Won)65 million. For additional information regarding our transactions with related parties, see Note 38 of the notes to our consolidated financial statements.

All of these loans and guarantees were made in the ordinary course of business, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

None of our directors or officers have or had any interest in any transactions effected by us that are or were unusual in their nature or conditions or significant to our business which were effected during the current or immediately preceding year or were effected during an earlier year and remain in any respect outstanding or unperformed.

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Item 7C. Interest of Experts and Counsel

Not Applicable

Item 8. FINANCIAL INFORMATION

Item 8A. Consolidated Statements and Other Financial Information

See Item 18. Financial Statements and pages F-1 through F-93.

Legal Proceedings

As a financial institution with diverse operations, we are subject to legal proceedings and regulatory actions in the ordinary course of our business.

Woori Finance Holdings

In April 2005, Shinhan Bank and eight other Korean banks filed a lawsuit at the Seoul Division of the Korean Intellectual Property Tribunal against us, claiming that the trademark Woori Bank is invalid and in violation of the Trademark Law of Korea and the Unfair Competition Prevention and Trade Secret Protection Act of Korea. In October 2005, the tribunal dismissed the lawsuit. In November 2005, these banks filed another related lawsuit at the Patent Court of Korea. This lawsuit is currently pending.

Woori Bank

In December 1998, Hanil Bank (since renamed Woori Bank) was named as the defendant in a lawsuit filed by Ilsung Pharmaceuticals Co., Ltd, which claimed damages of (Won)30 billion. Ilsung Pharmaceuticals alleged that Hanil Bank had illegally reduced its capital. In December 2003, the Seoul District Court dismissed the claim, and Ilsung Pharmaceuticals appealed the decision to the appellate court in January 2004.

In October 2001 and October 2002, Hanvit Bank, three other domestic banks and others were named as defendants in three lawsuits filed in the United States by investors claiming damages of US\$880 million. The investors alleged that the defendants aided and abetted Lernout & Hauspie Speech Products in the commission of an alleged fraud. Under U.S. securities laws, the investors alleged the defendants to be jointly liable for their losses arising from the presentation of fraudulent financial statements relating to Lernout & Hauspie. The investors also filed claims under the Racketeer Influenced and Corrupt Organizations (RICO) Act, which could result in treble damages. In February and March 2003, the District

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Court of New York ruled in favor of Woori Bank (the successor to Hanvit Bank) with respect to all three lawsuits. In June 2003, the District Court of New York reinstated Woori Bank as a defendant due to a ruling in a related case. However, the court ruled that the investors could not claim damages under the RICO Act and the securities laws of the United States and subsequently dismissed the complaint without prejudice due to the lack of diversity and federal jurisdiction. In November 2004, the court also dismissed the common law fraud claims due to the lack of requisite specificity required for federal claims. In December 2004, the investors appealed this decision to the United States Court of Appeals for the Second Circuit. In December 2005, the Court of Appeals affirmed the November 2004 judgment of the District Court dismissing all of plaintiffs' claims filed against the defendant banks. This lawsuit ended in March 2006, as the plaintiffs did not appeal the decision of the Court of Appeals.

In connection with the above lawsuits, in August 2005, Lernout & Hauspie filed a lawsuit in the U.S. District Court for the Southern District of New York against Woori Bank and the other domestic banks named as defendants in the previous lawsuits, alleging that the banks' non-recourse loan transaction with Lernout & Hauspie's subsidiary had contributed to Lernout & Hauspie's improper accounting. This lawsuit is currently pending.

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In September 2005, Daewoo Motors brought a lawsuit against Woori Bank in the Seoul District Court, claiming that Woori Bank had improperly set-off Daewoo Motor's deposits to satisfy Daewoo Motor's outstanding debts, resulting in damages of (Won)47.7 billion. Woori Bank countersued with respect to an outstanding loan of (Won)21.2 billion. Both lawsuits are currently pending.

In June 2004, Ssyangyong filed a lawsuit against Woori Bank as a co-defendant with respect to an incident in which Ssyangyong employees conspired with Bank of New York employees to produce fraudulent import-export documents, causing losses in the aggregate of (Won)113.7 billion for the defendant banks. Woori Bank suffered a loss of (Won)39.3 billion. In August 2005, Seoul District Court ruled in favor of the defendant banks, and Ssyangyong appealed the decision. One of the legal issues involved is the extent of Woori Bank's proportional liability should the appellate court find for Ssyangyong. The appeal is currently pending.

Kyobo Life Insurance had brought a lawsuit against Woori Bank in July 2000, claiming damages of (Won)10 billion on the allegation that Woori Bank had violated a trust agreement with Kyobo Life by investing entrusted funds in Saehan's unsecured corporate debt securities, which subsequently underwent an out-of-court workout. The Seoul District Court's decision in September 2001 in favor of Woori Bank was reversed by the appellate court in 2004. Woori Bank has since appealed the appellate court's decision, and the appeal is currently pending at the Supreme Court of Korea.

Kwangju Bank

On October 24, 2001, The Export-Import Bank of Korea filed a lawsuit against Kwangju Bank with respect to its obligations relating to a certificate of guarantee to be issued on behalf of Daewoo Corporation in favor of The Export-Import Bank of Korea in the amount of US\$100 million, of which Kwangju Bank's exposure amounts to US\$41 million. Kwangju Bank has established (Won)38 billion of allowances relating to the lawsuit. Kwangju Bank asserts that the underlying documents authorizing the issuance of a certificate of guarantee were executed without proper authorization by an assistant branch manager who failed to obtain the necessary approval of its board of directors. In December 2003, the Seoul District Court ruled against Kwangju Bank and required it to issue a certificate of guarantee on behalf of Daewoo Corporation in favor of The Export-Import Bank of Korea. Kwangju Bank has appealed this decision to the appellate court. This lawsuit is currently pending.

Other than the legal proceedings discussed above, we and our subsidiaries are not a party to any legal or administrative proceedings and no proceedings are known by us to be contemplated by governmental authorities or third parties, which, if adversely determined, may have a material adverse effect on our financial condition or results of operations.

Dividends

We declare our dividend annually at the annual general meeting of stockholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the stockholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend either in cash or in stock. Cash dividends may be paid out of retained earnings that have not been appropriated to statutory reserves. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.

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The table below sets forth the dividend per share of common stock and the total amount of dividends declared by Woori Finance Holdings and its predecessor with respect to each of the five years ended December 31, 2005. The dividends set forth below with respect to each year were declared, paid and recorded in the following year.

<u>Fiscal year</u>	<u>Dividends Per Common Share</u>	<u>Dividends Per Preferred Share</u>	<u>Total Amount Of Cash Dividends Paid</u>
			(in millions of (Won))
2001			
2002 ⁽¹⁾	(Won) 250		(Won) 57,262
2003	100		77,550
2004	150		119,468
2005	400		322,405

⁽¹⁾ The KDIC received dividends of (Won)50 per share of common stock. The total amount of cash dividends paid reflects this lesser amount paid with respect to the shares of common stock owned by the KDIC.

Future dividends will depend upon our revenues, cash flow, financial condition and other factors. As an owner of ADSs, you will be entitled to receive dividends payable in respect of the shares of common stock represented by such ADSs.

For a description of the tax consequences of dividends paid to our shareholders, see Item 10E. Taxation United States Taxation Dividends and Korean Taxation Taxation Dividends.

Item 8B. Significant Changes

Not Applicable

Item 9. THE OFFER AND LISTING**Item 9A. Offering and Listing Details****Market Price Information**

The principal trading market for our common stock is the Stock Market Division of the Korea Exchange. Our common stock, which is in registered form and has a par value of (Won)5,000 per share of common stock, has been listed on the Stock Market Division of the Korea Exchange since June 24, 2002 under the identifying code 053000. As of the date of this annual report, we have 806,012,790 shares of common stock outstanding. Our ADSs have been listed on the New York Stock Exchange and are identified by the symbol WF since September 29, 2003

under the CUSIP number 981063100.

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The table below sets forth, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the Stock Market Division of the Korea Exchange for our common stock, and their high and low closing prices and the average daily volume of trading activity on the New York Stock Exchange for our ADSs.

	Stock Market Division of the Korea Exchange ⁽¹⁾			New York Stock Exchange ⁽²⁾		
	Closing Price Per Common Stock		Average Daily Trading Volume	Closing Price Per ADS		Average Daily Trading Volume
	High	Low		High	Low	
	(in thousands of shares)			(in shares)		
2001						
First Quarter						
Second Quarter						
Third Quarter						
Fourth Quarter						
2002						
First Quarter						
Second Quarter	(Won) 6,800	(Won) 5,630	2,702			
Third Quarter	7,050	4,405	1,446			
Fourth Quarter	5,000	3,902	1,578			
2003						
First Quarter	4,800	3,900	1,560			
Second Quarter	6,400	4,050	1,722			
Third Quarter	7,350	6,000	1,752			
Fourth Quarter	7,750	5,580	1,840	US\$ 19.30	US\$ 15.30	1,325
2004						
First Quarter	9,250	6,800	1,810	25.20	17.95	4,898
Second Quarter	9,180	6,420	1,841	23.50	17.00	2,644
Third Quarter	8,200	6,500	2,781	22.00	16.45	1,595
Fourth Quarter	8,900	7,700	1,912	25.25	20.55	959
2005						
First Quarter	10,700	8,220	2,443	23.50	31.60	2,141
Second Quarter	10,300	8,970	1,339	30.30	27.75	1,486
Third Quarter	16,950	10,150	2,402	46.85	29.00	2,839
Fourth Quarter	20,650	14,000	3,205	61.47	43.00	6,284
2006						
January	20,250	17,050	2,914	63.55	52.79	23,465
February	19,400	17,600	2,163	60.39	54.22	11,421
March	19,300	18,100	1,853	69.55	55.30	7,108
April	21,400	19,500	2,259	68.71	61.30	10,368
May	22,800	19,000	1,888	74.70	60.50	14,832
June (through 26)	16,800	18,700	2,268	60.24	51.60	9,139

Source: Stock Market Division of the Korea Exchange; New York Stock Exchange.

(1) For the period from December 15, 2000 through June 23, 2002, neither our common shares nor those of our predecessor, Hanvit Bank, were traded on any exchange. Trading of our common shares on the Stock Market Division of the Korea Exchange commenced on June 24, 2002.

(2) Each ADS represents the right to receive three shares of our common stock. Trading of our ADSs on the New York Stock Exchange commenced on September 29, 2003.

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Item 9B. *Plan of Distribution*

Not Applicable

Item 9C. *Markets*

The Stock Market Division of the Korea Exchange began its operations in 1956. Currently it is the only stock exchange in Korea. It has a single trading floor located in Seoul. The Stock Market Division of the Korea Exchange is a membership organization consisting of most of the Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2005, the aggregate market value of equity securities listed on the Stock Market Division of the Korea Exchange was approximately (Won)655 trillion. The average daily trading volume of equity securities for 2005 was approximately 468 million shares with an average transaction value of (Won)3,158 billion.

The Stock Market Division of the Korea Exchange has the power in some circumstances to suspend trading in the shares of a given company or to de-list a security pursuant to the Listing Regulation of the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange also restricts share price movements. All listed companies are required to file accounting reports annually, semiannually and quarterly and to release immediately all information that may affect trading in a security.

The Stock Market Division of the Korea Exchange publishes the KOSPI every ten seconds, which is an index of all equity securities listed on the Stock Market Division of the Korea Exchange. On January 1, 1983, the method of computing KOSPI was changed from the Dow Jones method to the aggregate value method. In the new method, the market capitalizations of all listed companies are aggregated, subject to certain adjustments, and this aggregate is expressed as a percentage of the aggregate market capitalization of all listed companies as of the base date, January 4, 1980.

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The following table sets out movements in KOSPI:

	<u>Opening</u>	<u>High</u>	<u>Low</u>	<u>Closing</u>
1982	123.60	134.48	105.99	128.99
1983	122.52	134.46	115.59	121.21
1984	115.25	142.46	115.25	142.46
1985	139.53	163.37	131.40	163.37
1986	161.40	279.67	153.85	272.61
1987	264.82	525.11	264.82	525.11
1988	532.04	922.56	527.89	907.20
1989	919.61	1,007.77	844.75	909.72
1990	908.59	928.82	566.27	696.11
1991	679.75	763.10	586.51	610.92
1992	624.23	691.48	459.07	678.44
1993	697.41	874.10	605.93	866.18
1994	879.32	1,138.75	855.37	1,027.37
1995	1,013.57	1,016.77	847.09	882.94
1996	888.85	986.84	651.22	651.22
1997	653.79	792.29	350.68	376.31
1998	385.49	579.86	280.00	562.46
1999	587.57	1,028.07	498.42	1,028.07
2000	1,059.04	1,059.04	500.60	504.62
2001	520.95	704.50	468.76	693.70
2002	724.95	937.61	584.04	627.55
2003	635.17	822.16	515.24	810.71
2004	821.26	936.06	719.59	895.92
2005	839.71	1,379.37	870.84	1,379.37
2006 (through June 26)	1,389.27	1,464.70	1,203.86	1,238.05

Source: The Stock Market Division of the Korea Exchange

Shares are quoted ex-dividend on the first trading day of the relevant company's accounting period. Since the calendar year is the accounting period for the majority of listed companies, this may account for the drop in KOSPI between its closing level at the end of one calendar year and its opening level at the beginning of the following calendar year.

With certain exceptions, principally to take account of a share being quoted ex-dividend and ex-rights, permitted upward and downward movements in share prices of any category of shares on any day are limited under the rules of the Stock Market Division of the Korea Exchange to 15% of the previous day's closing price of the shares, rounded down as set out below:

<u>Previous Day's Closing Price (Won)</u>	<u>Rounded Down To Won</u>
Less than 5,000	5
5,000 to less than 10,000	10
10,000 to less than 50,000	50
50,000 to less than 100,000	100
100,000 to less than 500,000	500

500,000 or more

1,000

As a consequence, if a particular closing price is the same as the price set by the fluctuation limit, the closing price may not reflect the price at which persons would have been prepared, or would be prepared to continue, if so permitted, to buy and sell shares. Orders are executed on an auction system with priority rules to deal with competing bids and offers.

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Due to deregulation of restrictions on brokerage commission rates, the brokerage commission rate on equity securities transactions may be determined by the parties, subject to commission schedules being filed with the Stock Market Division of the Korea Exchange by the securities companies. In addition, a securities transaction tax of 0.15% of the sales price will generally be imposed on the transfer of shares or certain securities representing rights to subscribe for shares. See Item 3D. Risk Factors Risks relating to our common stock and ADSs. An agriculture and fishery special surtax of 0.15% of the sales prices will also be imposed on transfer of these shares and securities on the Stock Market Division of the Korea Exchange. See Item 10E. Taxation Korean Taxation.

The number of companies listed on the Stock Market Division of the Korea Exchange, the corresponding total market capitalization at the end of the periods indicated and the average daily trading volume for those periods are set forth in the following table:

Year	Market Capitalization on the					
	Last Day of Each Period			Average Daily Trading Volume, Value		
	Number of Listed Companies	(billions of (Won))	(millions of US\$) ⁽¹⁾	thousands of Shares	(millions of (Won))	(thousands of US\$) ⁽¹⁾
1982	334	(Won) 3,001	US\$ 4,279	9,704	(Won) 6,667	US\$ 9,507
1983	328	3,490	4,666	9,325	5,941	7,944
1984	336	5,149	6,434	14,847	10,642	13,301
1985	342	6,570	7,921	18,925	12,315	14,846
1986	355	11,994	13,439	31,755	32,870	36,830
1987	389	26,172	30,250	20,353	70,185	81,120
1988	502	64,544	81,177	10,367	198,364	249,483
1989	626	95,477	138,997	11,757	280,967	409,037
1990	669	79,020	115,610	10,866	183,692	268,753
1991	686	73,118	101,623	14,022	214,263	297,795
1992	688	84,712	110,691	24,028	308,246	402,779
1993	693	112,665	142,668	35,130	574,048	726,919
1994	699	151,217	185,657	36,862	776,257	953,047
1995	721	141,151	178,266	26,130	487,762	616,016
1996	760	117,370	151,289	26,571	486,834	627,525
1997	776	70,989	82,786	41,525	555,759	648,115
1998	748	137,799	81,297	97,716	660,429	389,634
1999	725	349,504	294,319	278,551	3,481,620	2,931,891
2000	704	188,042	166,703	306,163	2,602,211	2,306,925
2001	689	255,850	200,039	473,241	1,997,420	1,561,705
2002	683	258,681	217,379	857,245	3,041,598	2,308,789
2003	684	355,363	298,123	542,010	2,216,636	1,859,594
2004	683	412,588	398,597	372,895	2,232,108	2,156,418
2005	702	655,075	648,589	467,629	3,157,662	3,126,398
2006 (through June 26)	717	604,501	630,214	336,721	4,105,713	4,280,351

Source: The Stock Market Division of the Korea Exchange

(1) Converted at the noon buying rate of the Federal Reserve Bank of New York on the last business day of the period indicated.

The Korean securities markets are principally regulated by the Financial Supervisory Commission and the Korean Securities and Exchange Act. The Korean Securities and Exchange Act was fundamentally amended numerous times in recent years to broaden the scope and improve the

effectiveness of official supervision of the securities markets. As amended, the law imposes restrictions on insider trading and price manipulation, requires specified information to be made available by listed companies to investors and establishes rules regarding margin trading, proxy solicitation, takeover bids, acquisition of treasury shares and reporting requirements for stockholders holding substantial interests.

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Further Opening of the Korean Securities Market

A stock index futures market was opened on May 3, 1996 and a stock index option market was opened on July 7, 1997, in each case at the Stock Market Division of the Korea Exchange. Remittance and repatriation of funds in connection with foreign investment in stock index futures and options are subject to regulations similar to those that govern remittance and repatriation in the context of foreign investment in Korean stocks.

In addition, on January 28, 2002 the Stock Market Division of the Korea Exchange opened a new options market for seven stocks (Samsung Electronics, SK Telecom, KT Corporation, Korea Electric Power Corporation, POSCO, Kookmin Bank and Hyundai Motor Company). Foreigners are permitted to invest in such options subject to the same procedural requirements and investment limitations applicable to Korean investors.

Starting from May 1, 1996, foreign investors were permitted to invest in warrants representing the right to subscribe for shares of a company listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange, subject to certain investment limitations. A foreign investor may not acquire such warrants with respect to shares of a class of a company for which the ceiling on aggregate investment by foreigners has been reached or exceeded.

As of December 30, 1997, foreign investors were permitted to invest in all types of corporate bonds, bonds issued by national or local governments and bonds issued in accordance with certain special laws without being subject to any aggregate or individual investment ceiling. The Financial Supervisory Commission sets forth procedural requirements for such investments. The government announced on February 8, 1998 its plans for the liberalization of the money market with respect to investment in money market instruments by foreigners in 1998. According to the plan, foreigners have been permitted to invest in money market instruments issued by corporations, including commercial paper, starting February 16, 1998 with no restrictions as to the amount. Starting May 25, 1998, foreigners have been permitted to invest in certificates of deposit and repurchase agreements.

Currently, foreigners are permitted to invest in certain securities including shares of Korean companies that are not listed on the Stock Market Division of the Korea Exchange nor registered on the KOSDAQ Market Division of the Korea Exchange and in bonds that are not listed.

Protection of Customer's Interest in Case of Insolvency of Securities Companies

Under Korean law, the relationship between a customer and a securities company in connection with a securities sell or buy order is deemed to be consignment and the securities acquired by a consignment agent (i.e., the securities company) through such sell or buy order are regarded as belonging to the customer in so far as the customer and the consignment agent's creditors are concerned. Therefore, in the event of a bankruptcy or reorganization procedure involving a securities company, the customer of the securities company is entitled to the proceeds of the securities sold by the securities company.

When a customer places a sell order with a securities company which is not a member of the Stock Market Division of the Korea Exchange, and that securities company places a sell order with another securities company, which is a member of the Stock Market Division of the Korea Exchange, the customer is still entitled to the proceeds of the securities sold and received by the non-member company from the member company regardless of the bankruptcy or reorganization of the non-member company.

Under the Korean Securities and Exchange Act, the Stock Market Division of the Korea Exchange is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a securities company which is a member of the Stock Market Division of the Korea Exchange breaches its obligation in connection with a buy order, the Stock Market Division of the Korea Exchange is obliged to pay the purchase price on behalf of the breaching member. Therefore, the customer can acquire the securities that have been ordered to be purchased by the breaching member.

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When a customer places a buy order with a non-member company and the non-member company places a buy order with a member company, the customer has the legal right to the securities received by the non-member company from the member company because the purchased securities are regarded as belonging to the customer in so far as the customer and the non-member company's creditors are concerned.

As the cash deposited with a securities company is regarded as belonging to the securities company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from the securities company if a bankruptcy or reorganization procedure is instituted against the securities company and, therefore, can suffer from loss or damage as a result. However, the Depositor Protection Act provides that the Korea Deposit Insurance Corporation will, upon the request of the investors, pay investors an amount equal to the full amount of cash deposited with a securities company prior to August 1, 1998 in case of the securities company's bankruptcy, liquidation, cancellation of securities business license or other insolvency events. However, this indemnification was available only until the end of 2000. From 2001, the maximum amount to be paid to each customer is limited to (Won)50 million. Pursuant to the Korean Securities and Exchange Act, as amended, securities companies are required to deposit the cash received from its customers to the extent the amount is not covered by the insurance with the Korea Securities Finance Corporation, a special entity established pursuant to the Korean Securities and Exchange Act. Set-off or attachment of cash deposits by securities companies is prohibited. The premiums related to this insurance are paid by securities companies.

Reporting Requirements for Holders of Substantial Interests

Any person who directly or beneficially owns shares of our common stock that have voting rights, whether in the form of shares, ADSs, certificates representing the rights to subscribe for shares or equity-related debt securities (including convertible bonds and bonds with warrants) (which we refer to collectively as "Equity Securities") that, when taken together with the Equity Securities beneficially owned by specified related persons or by any person acting in concert with that person, account for 5% or more of our total issued and outstanding shares (plus the Equity Securities other than the shares held by such persons) must report that holding to the Financial Supervisory Commission and the Stock Market Division of the Korea Exchange no more than five business days after reaching 5%. That person must also report any subsequent change in the ownership interest of 1% or more of our total outstanding shares (plus the Equity Securities other than the shares held by such persons) to the same entities no more than five business days after the change.

Anyone violating these reporting requirements may suffer criminal sanctions, including fines, imprisonment and/or a loss of voting rights with respect to the ownership of Equity Securities exceeding 5%. Furthermore, the Financial Supervisory Commission may order that person to dispose of the unreported Equity Securities.

In addition to the reporting requirements described above, any person whose direct or beneficial ownership of our stock accounts for 10% or more of the total issued and outstanding stock (which we refer to as a "major stockholder") must report the status of its shareholding to the Korea Securities Futures Commission and the Stock Market Division of the Korea Exchange within ten days after it becomes a major stockholder. In addition, the major stockholder must report any subsequent change in its ownership interest to those same entities no later than the tenth day of the month following the month in which the change occurred. A major stockholder that violates these reporting requirements may suffer criminal sanctions, including fines or imprisonment.

Pursuant to the Financial Holding Company Act, any single stockholder (together with any person considered to be a related party to that stockholder) that acquires more than 10% of the voting stock of a Korean financial holding company will be subject to approval requirements. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

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Restrictions Applicable to ADSs

An investor does not need Korean governmental approval to sell or purchase our ADSs in the secondary market outside Korea or to withdraw shares of our common stock from our ADS deposit facility or deliver those withdrawn shares in Korea. However, a foreign investor who intends to acquire shares must obtain an investment registration card from the Financial Supervisory Service as described below. Either the foreign investor or its standing proxy in Korea must immediately report its acquisition of the shares to the governor of the Financial Supervisory Commission.

Persons who acquire shares of our common stock by withdrawing those shares from our ADS deposit facility may exercise their preemptive rights for new shares, participate in free distributions and receive dividends on shares without any further Korean governmental approval.

Restriction Applicable to Shares

As a result of amendments to the Foreign Exchange Transaction Laws and Financial Supervisory Commission regulations (which we refer to collectively as the Investment Rules) adopted since January 1992 in connection with the opening and operation of Korea's stock market, foreign investors may generally invest, with limited exceptions and subject to procedural requirements, in all shares of Korean companies, whether listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange. Foreign investors may trade shares listed on the Stock Market Division of the Korea Exchange or registered on the KOSDAQ Market Division of the Korea Exchange only through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, except in limited circumstances. These circumstances include:

odd-lot share trading;

acquiring shares (which we refer to as Converted Shares) by exercising warrants, conversion rights or exchange rights under bonds with warrants, convertible bonds or exchangeable bonds or withdrawal rights under depositary receipts issued outside of Korea by a Korean company;

acquiring shares through inheritance, donation, bequest or exercise of stockholders' rights, including pre-emptive rights or rights to participate in free distributions and receive dividends; or

subject to certain exceptions, over-the-counter transactions between foreign investors of a class of shares for which the limit on aggregate acquisition by foreign investors, as explained below, has been reached or exceeded.

For over-the-counter transactions between foreign investors outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange involving a class of shares for which the limit on aggregate acquisition by foreign investors has been reached or exceeded, a securities company licensed in Korea must act as an intermediary. Odd-lot trading of shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange must involve a licensed securities company in Korea as the other party. Foreign investors may not engage in margin transactions by borrowing shares from securities companies with respect to shares that are subject to a foreign ownership limit.

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The Investment Rules require a foreign investor who wishes to invest in shares on the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange (including Converted Shares and shares being issued for initial listing on the Stock Market Division of the Korea Exchange or registration on KOSDAQ Market Division of the Korea Exchange) to register with the Financial Supervisory Service before making an investment. This registration requirement does not apply to foreign investors who acquire Converted Shares with the intention of selling the Converted Shares within three months from the acquisition date. The Financial Supervisory Service will issue an investment registration card to each registering foreign investor. This card must be presented each time the foreign investor opens a brokerage account with a securities company. Foreign investors eligible to obtain an investment registration card include:

foreign nationals who have not been residing in Korea for a consecutive period of six months or more;

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foreign governments;

foreign municipal authorities;

foreign public institutions;

international financial institutions or similar international organizations;

corporations incorporated under foreign laws; and

any person in any additional category designated by decree of the Ministry of Finance and Economy under the Korean Securities and Exchange Act.

All Korean offices of a foreign corporation (as a group) are treated as a separate foreign investor from the offices of the corporation outside Korea for these purposes. However, a foreign corporation or depository issuing depository receipts may obtain one or more investment registration cards in its name in certain circumstances identified in the relevant regulations.

When a foreign investor purchases shares through the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, it need not make a separate report because the investment registration card system is designed to control and oversee foreign investment through a computer system. If, however, a foreign investor acquires or sells shares outside the Stock Market Division of the Korea Exchange or the KOSDAQ Market Division of the Korea Exchange, that investor or its standing proxy must report that transaction to the governor of the Financial Supervisory Service at that time. In addition, if a foreign investor acquires or sells its shares in connection with a tender offer, odd-lot trading of shares or trades of a class of shares for which the aggregate foreign ownership limit has been reached or exceeded, that investor must ensure that the securities company engaged to facilitate the transaction reports the transaction to the governor of the Financial Supervisory Service. A foreign investor may appoint a standing proxy to exercise stockholders' rights or perform any matters related to the foregoing activities if that investor does not perform these activities itself. A foreign investor may be exempted from complying with the standing proxy rules with the approval of the governor of the Financial Supervisory Service in cases deemed unavoidable by reason of conflict between laws of Korea and the home country of the foreign investor.

Certificates evidencing shares of Korean companies must be kept in the custody of an eligible custodian in Korea. The same entities eligible to act as a standing proxy are eligible to act as a custodian of shares for a non-resident or foreign investor. A foreign investor must ensure that its custodian deposits its shares with the Korea Securities Depository. A foreign investor may be exempted from complying with this deposit requirement with the approval of the governor of the Financial Supervisory Service in circumstances where compliance with that requirement is made impracticable, including cases where compliance would contravene the laws of the foreign investors' home country.

Under the Investment Rules, with certain limitations, foreign investors may acquire shares of a Korean company without being subject to any foreign investment limit. Under one of these limitations, foreign investors may acquire no more than 40% of the outstanding share capital of designated public corporations. Designated public corporations may set a limit on the aggregate amount of shares that an individual person may acquire. This limit may be as high as 3% of the company's outstanding share capital. Currently, the Korea Electric Power Corporation is the only designated public corporation that has set this limit. If a foreign investor acquires 10% or more of the outstanding shares with voting rights of a Korean company, that investment constitutes a foreign direct investment under the Foreign Investment Promotion Act of Korea. Generally, a foreign direct investment must be reported to a foreign exchange bank or the Korea Trade Investment Promotion Agency. The acquisition of a Korean company's shares by a foreign investor may be subject to certain foreign or other shareholding restrictions in the event that the restrictions are prescribed in a specific law that regulates the business of the Korean company. For a description of the restrictions applicable to

Korean financial holding companies, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies.

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Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of pre-emptive rights.

Securities companies and investment trust management companies may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, securities companies and investment trust management companies may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 9D. *Selling Shareholders*

Not Applicable

Item 9E. *Dilution*

Not Applicable

Item 9F. *Expenses of the Issuer*

Not Applicable

Item 10. ADDITIONAL INFORMATION

Item 10A. *Share Capital*

Not Applicable

Item 10B. *Memorandum and Articles of Association*

Description of Capital Stock

We have set forth below information relating to our capital stock, including brief summaries of some of the provisions of our articles of incorporation, the Korean Commercial Code, the Korean Securities and Exchange Act of 1962, as amended (the Korean Securities and Exchange Act), and other related laws of Korea. These summaries do not purport to be complete and are subject to our articles of incorporation, and the applicable provisions of the Korean Securities and Exchange Act, the Korean Commercial Code and those related laws.

Our authorized share capital is 2,400,000,000 shares. Our articles of incorporation authorize us to issue:

shares of common stock, par value (Won)5,000 per share;

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shares of non-voting preferred stock, par value (Won)5,000 per share;

shares of non-voting redeemable preferred stock, par value (Won)5,000 per share; and

shares of non-voting convertible preferred stock, par value (Won)5,000 per share.

Subject to applicable laws and regulations, our articles of incorporation authorize us to issue a number of shares of preferred stock equal to as much as one-half of all of the issued and outstanding shares.

As of the date of this annual report, 806,012,790 shares of common stock were issued and outstanding. There are no shares of preferred stock currently outstanding. All of the issued and outstanding shares are fully paid and non-assessable and are in registered form. As of the date of this annual report, our authorized but unissued share capital was 1,593,984,660 shares. We may issue the unissued shares without further stockholder approval, but these issuances are subject to a board resolution as provided in the articles of incorporation. See *Pre-emptive Rights and Issuances of Additional Shares* and *Dividends and Other Distributions Distribution of Free Shares*. For a discussion of the history of our share capital, see Note 23 of the notes to our consolidated financial statements and *Item 4A. History and Development of the Company History Establishment of Woori Finance Holdings*.

Our articles of incorporation allow our stockholders, by special resolution, to grant to our officers, directors and employees stock options exercisable for up to 15% of the total number of our issued and outstanding shares. Our board of directors may also grant stock options exercisable for up to 1% of our issued and outstanding shares. However, any grant by our board of directors must be approved by our stockholders at their next general meeting convened immediately after the grant date. As of December 31, 2005, our officers, directors and employees held options to purchase 1,230,000 shares of common stock. See *Item 6E. Share Ownership*.

We issue share certificates in denominations of one, five, ten, 50, 100, 500, 1,000 and 10,000 shares.

Organization and Register

We are a financial holding company established under the Financial Holding Company Act. We were incorporated under the laws of Korea on March 27, 2001 and commenced operations on April 2, 2001. We are registered with the commercial registry office of Seoul District Court. We maintain the register of our stockholders at our principal office in Seoul, Korea. We register transfers of shares on the register of stockholders upon presentation of the share certificates.

Dividends and Other Distributions

Dividends. We distribute dividends to stockholders in proportion to the number of shares of the relevant class of capital stock they own. Subject to the requirements of the Korean Commercial Code and other applicable laws and regulations, we expect to pay full annual dividends on newly issued stock for the year in which it is issued.

We declare our dividend annually at the annual general meeting of stockholders. We generally hold this meeting within three months after the end of each fiscal year. We must pay the annual dividend to the stockholders of record as of the end of the preceding fiscal year within one month after that meeting. We can distribute the annual dividend either in cash or in stock. However, if we distribute stock, that stock must be distributed at par value and, if the market price of the stock is less than their par value, stock dividends cannot exceed one-half of the annual dividend. In addition, we may declare, and distribute in cash, interim dividends once a year pursuant to a board resolution.

Under the Korean Commercial Code and our articles of incorporation, we do not have an obligation to pay any annual or interim dividend unclaimed for five years from the payment date.

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The Financial Holding Company Act and related regulations require that each time a Korean financial holding company pays an annual dividend, it must set aside in its legal reserve to stated capital an amount equal to at least one-tenth of its net income after tax until the amount set aside reaches at least the aggregate amount of its stated capital. Unless it sets aside this amount, a Korean financial holding company may not pay an annual dividend. We intend to set aside allowances for loan losses and reserves for severance pay in addition to this legal reserve.

For information regarding taxation of dividends, see Item 10E. Taxation United States Taxation Dividends and Korean Taxation Taxation of Dividends.

Distribution of Free Shares. The Korean Commercial Code permits us to pay dividends in the form of shares out of retained or current earnings. It also permits us to distribute to our stockholders, in the form of free shares, an amount transferred from the capital surplus or legal reserve. We would be required to distribute those free shares pro rata to all stockholders.

Pre-emptive Rights and Issuances of Additional Shares

We may issue authorized but unissued shares as our board of directors may determine, unless otherwise provided in the Korean Commercial Code. We must, however, offer any new shares on uniform terms to all stockholders who have preemptive rights and are listed on our stockholders' register as of the applicable record date. Those stockholders are entitled to subscribe for any newly issued shares in proportion to their existing shareholdings. Our articles of incorporation provide, however, that we may issue new shares to persons other than existing stockholders if those shares are:

publicly offered pursuant to Article 189-3 of the Korean Securities and Exchange Act (where the number of shares so offered may not exceed 50% of our total number of issued shares);

issued to directors or employees as a result of the exercise of stock options we granted to them pursuant to Article 189-4 of the Korean Securities and Exchange Act;

issued to the members of our employee stock ownership association pursuant to Article 191-7 of the Korean Securities and Exchange Act;

issued to specified foreign investors or foreign or domestic financial institutions for managerial needs, strategic technology alliances, emergency financing or debt-to-equity swaps by those financial institutions (where the number of shares so offered may not exceed 50% of our total number of issued shares); or

issued to a depository for the purpose of issuing depository receipts pursuant to Article 192 of the Korean Securities and Exchange Act (where the number of shares so offered may not exceed 50% of our total number of issued shares).

We must give public notice of pre-emptive rights for new shares and their transferability not less than two weeks before the record date (excluding the period during which the stockholders' register is closed). We will notify the stockholders who are entitled to subscribe for newly issued shares of the deadline for subscription at least two weeks prior to the deadline. If a stockholder fails to subscribe on or before the deadline, its pre-emptive rights will lapse. Our board of directors may determine how to distribute shares in respect of which preemptive rights have not been exercised or where fractions of shares occur.

Under the Korean Securities and Exchange Act, each member of our employee stock ownership association, whether or not they are stockholders, has a preemptive right, subject to certain exceptions, to subscribe for up to 20% of any shares we publicly offer. This right is exercisable only so long as the total number of shares so acquired and held by the member does not exceed 20% of the total number of shares then outstanding. As of December 31, 2005, through the stock ownership association our employees owned 101,793 shares, or 0.01%, of our common stock.

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In addition, our articles of incorporation permit us to issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of (Won)2 trillion, to persons other than existing stockholders. Under the Korean Commercial Code, we are permitted to distribute convertible bonds or bonds with warrants to persons other than existing stockholders only when we deem that this distribution is necessary for managerial purposes, such as obtaining new technology or improving our financial condition. In the event we issue new shares, the foregoing provision would be applicable notwithstanding any provision in the articles of incorporation allowing issuance of new shares to persons other than existing stockholders. As of December 31, 2005, we had no convertible bonds or bonds with warrants outstanding.

Voting Rights

Each outstanding share of our common stock is entitled to one vote. However, voting rights may not be exercised for shares that we hold or shares that a corporate stockholder holds, if we directly or indirectly own more than one-tenth of the outstanding capital stock of that stockholder. Our articles of incorporation do not prohibit cumulative voting. Accordingly, the Korean Securities and Exchange Act permits holders of an aggregate of 1% or more of our outstanding shares with voting rights to request cumulative voting when electing two or more directors.

The Korean Commercial Code and our articles of incorporation provide that an ordinary resolution may be adopted if the holders of at least a majority of those shares of common stock present or represented at a meeting approve the resolution and the majority also represents at least one-fourth of the total of our issued and outstanding shares of common stock. Holders of non-voting shares (other than enfranchised non-voting shares) are not entitled to vote on any resolution or to receive notice of any general meeting of stockholders, unless the meeting agenda includes considering a resolution on which they are entitled to vote. If our annual general meeting resolves not to pay to holders of preferred stock the annual dividend determined by the board of directors when we issued those shares, those holders will be entitled to exercise voting rights from the general meeting following the meeting adopting that resolution until the end of a meeting where a resolution is passed declaring payment of a dividend on the preferred stock. Holders of the enfranchised preferred stock will have the same rights as holders of common stock to request, receive notice of, attend and vote at a general meeting of stockholders.

The Korean Commercial Code provides that the holders of at least two-thirds of those shares present or represented at a meeting must approve the adoption of a special resolution, and the special majority must represent at least one-third of the total issued and outstanding shares with voting rights of the company. Special resolutions are required to:

- amend the articles of incorporation;
- change the authorized share capital of the company;
- remove a director;
- dissolve, merge or consolidate us;
- transfer of the whole or a significant part of our business;
- acquire all of the business of another company;

acquire a part of the business of another company that has a material effect on our business of the company; and

issue new shares at a price lower than their par value.

In addition, the holders of our preferred stock must adopt a separate resolution in connection with an amendment to our articles of incorporation, any merger or consolidation or in certain other cases where their rights or interests are adversely affected. Holders of at least two-thirds of the preferred stock present or represented at a meeting must approve the adoption of that resolution, and those holders must hold preferred stock representing at least one-third of our total issued and outstanding preferred stock.

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A stockholder may exercise its voting rights by proxy given to another person. The proxy must present the power of attorney before the start of the meeting.

Liquidation Rights

If we are liquidated, the assets remaining after the payment of all our debts, liquidation expenses and taxes will be distributed to stockholders in proportion to the number of shares they hold. Holders of preferred stock have no preferences in liquidation.

General Meetings of Stockholders

There are two types of general meetings of stockholders: annual general meetings and extraordinary general meetings. We are required to convene our annual general meeting within three months after the end of each fiscal year. Subject to a board resolution or court approval, an extraordinary general meeting of stockholders may be held:

when we deem one necessary;

at the request of the holders of an aggregate of 3% or more of our outstanding shares;

at the request of the holders of an aggregate of 0.75% or more of our outstanding shares with voting rights who have held those shares for at least six months; or

at the request of our audit committee.

Holders of non-voting shares are entitled to request a general meeting only if their non-voting shares have become enfranchised. Meeting agendas will be determined by our board of directors or proposed by holders of an aggregate of 3% or more of our outstanding shares with voting rights or by holders of an aggregate of 0.25% or more of those shares who have held those shares for at least six months by way of a written proposal to our board of directors at least six weeks before the meeting. We must give stockholders written notices or e-mail notices stating the date, place and agenda of the meeting at least two weeks before the date of the meeting. However, we may give notice to holders of 1% or less of the total number of issued and outstanding shares that are entitled to vote by placing at least two public notices at least two weeks in advance of the meeting in at least two daily newspapers. Stockholders who are not on the stockholders' register as of the record date will not be entitled to receive notice of the general meeting of stockholders or to attend or vote at the meeting. Unless their non-voting shares have been enfranchised, holders of non-voting shares are not entitled to receive notice of or vote at general meetings of stockholders. Holders of enfranchised non-voting shares who are on the stockholders' register as of the record date will be entitled to receive notice of the general meeting of stockholders and to attend and vote at the meeting.

We will generally hold our general meeting of stockholders at our head office, which is our registered head office. If necessary, we may hold the meeting anywhere in the vicinity of our head office.

Rights of Dissenting Stockholders

Pursuant to the Korean Securities and Exchange Act and the Law on the Improvement of the Structure of the Financial Industry, in certain limited circumstances dissenting holders of shares of our common stock and our preferred stock will have the right to require us to purchase their shares. These circumstance include:

if we transfer all or any significant part of our business;

if we acquire a part of the business of any other company and the acquisition has a material effect on our business; or

if we merge or consolidate with another company.

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To exercise this right, stockholders must submit to us a written notice of their intention to dissent prior to the general meeting of stockholders called to approve the transaction in question. Within 20 days (or ten days, in the case of a merger or consolidation under the Law on Improvement of the Structure of the Financial Industry) after the date on which stockholders pass the relevant resolution at the general meeting, the dissenting stockholders must request in writing that we purchase their shares. We must purchase those shares within one month after the end of the request period (within two months after the receipt of the request in the case of a merger or consolidation under the Law on Improvement of the Structure of Financial Industry) at a negotiated price. If we cannot agree with the stockholder on a purchase price through negotiations, the price will be the arithmetic mean of the weighted average of the daily stock prices on the Stock Market Division of the Korea Exchange for:

the two-month period prior to the date the relevant board of directors' resolution was adopted;

the one-month period prior to the date the relevant board of directors' resolution was adopted; and

the one-week period prior to the date the relevant board of directors' resolution was adopted.

Pursuant to the Korean Securities and Exchange Act, the Financial Supervisory Commission may adjust this price if we or at least 30% of the dissenting stockholders do not accept the purchase price and request an adjustment not later than ten days before the end of the one-month purchase period.

In the case of a merger or consolidation pursuant to the Law on the Improvement of the Structure of Financial Industry where the Korean government or the KDIC provides financial support, procedures different from those in the case of a merger or consolidation pursuant to the Korean Securities and Exchange Act will apply. For example, if the relevant parties cannot agree on a purchase price, the price will be determined by an accounting expert and not by the Financial Supervisory Commission. However, a court may adjust this price if we or holders of at least 30% of the shares we must purchase do not accept the purchase price determined by the accounting expert and request an adjustment no later than 30 days from the date of the determination of the purchase price.

Required Disclosure of Ownership

Under Korean and U.S. law, stockholders who beneficially hold more than a certain percentage of our common stock, or who are related to or are acting in concert with other holders of certain percentages of our common stock or our other equity securities, must report their holdings to various governmental authorities. For a description of the required disclosure of ownership, see Item 9C. Markets Reporting Requirements for Holders of Substantial Interests and Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

Other Provisions

Record Date. The record date for annual dividends is December 31. For the purpose of determining the holders of shares entitled to annual dividends, we may close the register of our stockholders for the period from January 1 until January 31. Further, the Korean Commercial Code and our articles of incorporation permit us, upon at least two weeks' public notice, to set a record date and/or close the register of stockholders for not more than three months for the purpose of determining the stockholders entitled to certain rights pertaining to the shares. The trading of shares and the related delivery of share certificates may continue while the register of stockholders is closed.

Annual and Interim Reports. At least one week before the annual general meeting of stockholders, we must make our annual report and audited financial statements available for inspection at our head office and at all of our branch offices. We must make copies of our annual reports, our audited financial statements and any resolutions adopted at the general meeting of stockholders available to our stockholders.

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Under the Korean Securities and Exchange Act, we must file with the Financial Supervisory Commission and the Stock Market Division of the Korea Exchange:

an annual report within 90 days after the end of each fiscal year;

a half-year report within 45 days after the end of the first six months of each fiscal year; and

quarterly reports within 45 days after the end of the first three months and nine months of each fiscal year.

Copies of these reports will be available for public inspection at the Financial Supervisory Commission and the Stock Market Division of the Korea Exchange.

Transfer of Shares. Under the Korean Commercial Code, share transfers are effected by the delivery of share certificates. The Korean Securities and Exchange Act provides, however, that in case of a company listed on the Stock Market Division of the Korea Exchange (like us), share transfers can be effected using a book-entry system. The transferee must have its name and address registered on our register of stockholders in order to assert its stockholder's rights. For this purpose, stockholders must file their name, address and seal with us. Non-resident stockholders must tell us the name of their proxy in Korea to which we can send notices. Under current Korean regulations, the following entities may act as agents and provide related services for foreign stockholders:

the Korea Securities Depository;

internationally recognized foreign custodians;

investment trust management companies;

futures trading companies;

foreign exchange banks (including domestic branches of foreign banks); and

securities companies (including domestic branches of foreign securities companies).

Foreign stockholders may appoint a standing proxy from the foregoing and generally may not allow any person other than the standing proxy to exercise rights to the acquired shares or perform any tasks related thereto on their behalf.

Foreign exchange controls and securities regulations apply to the transfer of shares by non-residents or non-Koreans. See Item 9C. Markets.

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Except as provided in the Financial Holding Company Act, the maximum aggregate shareholdings of a single stockholder or a person in a special relationship with any stockholder is 10% of our issued and outstanding voting shares. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restriction on Ownership of a Financial Holding Company.

Our Acquisition of Our Shares. We generally may not acquire our own capital stock except in certain limited circumstances, including a reduction in capital.

Notwithstanding the foregoing restrictions, pursuant to the Korean Securities and Exchange Act and after submission of certain reports to the Financial Supervisory Commission, we may purchase our own capital stock on the Stock Market Division of the Korea Exchange or through a tender offer. We may also acquire interests in our capital stock through agreements with trust companies, securities investment companies or investment trust management companies. The aggregate purchase price of our capital stock may not exceed the total amount available for distribution of dividends at the end of the preceding fiscal year.

In general, subsidiaries of which we own 50% or more are not permitted to acquire our capital stock.

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Item 10C. *Material Contracts*

In connection with the receipt of public funds by us and our subsidiaries, we entered into memoranda of understanding with the KDIC. 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 financial and business targets and recapitalization goals on a semi-annual and/or quarterly basis until the end of 2006. See Item 4A. History and Development of the Company History Relationship with the Korean Government.

We and certain of our subsidiaries have been unable to meet our respective financial targets and, as a result, the KDIC imposed penalties on us and those subsidiaries, some of which have been subsequently merged into other subsidiaries. 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 our financial targets subsequent to such adjustments. See Item 3D. Risk Factors 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.

Item 10D. *Exchange Controls*

General

The Foreign Exchange Transaction Act of Korea and the Presidential Decree and regulations under that Act and Decree regulate investment in Korean securities by non-residents and issuance of securities outside Korea by Korean companies. We collectively refer to these laws and regulations as the Foreign Exchange Transaction Laws. Non-residents may invest in Korean securities only to the extent specifically allowed by the Foreign Exchange Transaction Laws or otherwise permitted by the Ministry of Finance and Economy. The Financial Supervisory Commission has also adopted regulations that restrict foreign investment in Korean securities and regulate the issuance of securities outside Korea by Korean companies, pursuant to its authority under the Korean Securities and Exchange Act.

Under the Foreign Exchange Transaction Laws, if the Korean government deems that:

the need to do so is inevitable due to the outbreak of natural calamities, wars, conflict of arms or grave and sudden changes in domestic or foreign economic circumstances or other similar situations, the Ministry of Finance and Economy may temporarily suspend payment, receipt or the whole or part of transactions to which the Foreign Exchange Transaction Laws apply, or impose an obligation to safe-keep, deposit or sell means of payment in or to certain Korean governmental agencies or financial institutions; and

international balance of payments and international finance are confronted or are likely to be confronted with serious difficulty or the movement of capital between Korea and abroad brings or is likely to bring about serious obstacles in carrying out its currency policies, exchange rate policies and other macroeconomic policies, the Ministry of Finance and Economy may take measures to require any person who intends to perform capital transactions to obtain permission or to require any person who performs capital transactions to deposit part of the payments received in these transactions at certain Korean governmental agencies or financial institutions.

Both of these actions are subject to limitations specified by the Foreign Exchange Transaction Laws.

Restrictions Applicable to Shares

Under the Foreign Exchange Transaction Laws, a foreign investor who intends to acquire shares must designate a foreign exchange bank at which he must open a foreign currency account and a Won account

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exclusively for stock investments. Approval is not required for remittance into Korea and deposit of foreign currency funds in the foreign currency account. Foreign currency funds may be transferred from the foreign currency account at the time required to place a deposit for, or settle the purchase price of, a stock purchase transaction to a Won account opened at a securities company. Funds in the foreign currency account may be remitted abroad without any Korean governmental approval.

Dividends on shares of Korean companies are paid in Won. Korean governmental approval is not required for foreign investors to receive dividends on, or the Won proceeds from the sale of, any shares to be paid, received and retained in Korea. Dividends paid on, and the Won proceeds of the sale of, any shares held by a non-resident of Korea must be deposited either in a Won account with the investor's securities company or in its own Won account. Funds in a foreign investor's Won account may be transferred to its foreign currency account or withdrawn for local living expenses up to certain limits. These funds may also be used to make future investments in shares or to pay the subscription price of new shares obtained through the exercise of pre-emptive rights.

Securities companies and investment trust management companies may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors' stock investments in Korea. Through these accounts, securities companies and investment trust management companies may enter into limited foreign exchange transactions, such as converting foreign currency funds and Won funds, either as a counterparty to or on behalf of foreign investors, without the investors having to open their own accounts with foreign exchange banks.

Item 10E. Taxation

United States Taxation

This summary describes certain material U.S. federal income tax consequences for a U.S. holder (as defined below) of acquiring, owning, and disposing of common shares or ADSs. This summary applies to you only if you hold the common shares or ADSs as capital assets for tax purposes. This summary does not apply to you if you are a member of a class of holders subject to special rules, such as:

a dealer in securities or currencies;

a trader in securities that elects to use a mark-to-market method of accounting for securities holdings;

a bank;

a life insurance company;

a tax-exempt organization;

a person that holds common shares or ADSs that are a hedge or that are hedged against interest rate or currency risks;

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a person that holds common shares or ADSs as part of a straddle or conversion transaction for tax purposes;

a person whose functional currency for tax purposes is not the U.S. dollar; or

a person that owns or is deemed to own 10% or more of any class of our stock.

This summary is based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations promulgated thereunder, and published rulings and court decisions, all as currently in effect. These laws are subject to change, possibly on a retroactive basis.

Please consult your own tax advisers concerning the U.S. federal, state, local, and other tax consequences of purchasing, owning, and disposing of common shares or ADSs in your particular circumstances.

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For purposes of this summary, you are a U.S. holder if you are the beneficial owner of a common share or an ADS and are:

a citizen or resident of the United States;

a U.S. domestic corporation; or

otherwise subject to U.S. federal income tax on a net income basis with respect to income from the common share or ADS.

In general, if you are the beneficial owner of ADSs, you will be treated as the beneficial owner of the common shares represented by those ADSs for U.S. federal income tax purposes, and no gain or loss will be recognized if you exchange an ADS for the common share represented by that ADS.

Dividends

The gross amount of cash dividends that you receive (prior to deduction of Korean taxes) generally will be subject to U.S. federal income taxation as foreign source dividend income and will not be eligible for the dividends received deduction. Dividends paid in Won will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of your receipt of the dividend, in the case of common shares, or the depository's receipt, in the case of ADSs, regardless of whether the payment is in fact converted into U.S. dollars. If such a dividend is converted into U.S. dollars on the date of receipt, you generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual prior to January 1, 2011 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends are qualified dividends. Dividends paid on the ADSs will be treated as qualified dividends if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid a passive foreign investment company (PFIC). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on our audited financial statements and relevant market and shareholder data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2004 or 2005 taxable year. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for our 2006 taxable year.

Distributions of additional shares in respect of common shares or ADSs that are made as part of a pro-rata distribution to all of our stockholders generally will not be subject to U.S. federal income tax.

Sale or Other Disposition

For U.S. federal income tax purposes, gain or loss you realize on a sale or other disposition of common shares or ADSs generally will be treated as U.S. source capital gain or loss, and will be long-term capital gain or loss if the common shares or ADSs were held for more than one year. Your ability to offset capital losses against ordinary income is limited. Long-term capital gain recognized by an individual U.S. holder generally is subject to taxation at reduced rates.

Foreign Tax Credit Considerations

You should consult your own tax advisers to determine whether you are subject to any special rules that limit your ability to make effective use of foreign tax credits, including the possible adverse impact of failing to take advantage of benefits under the income tax treaty between the United States and Korea. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from

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dividends on the common shares or ADSs, so long as you have owned the common shares or ADSs (and not entered into specified kinds of hedging transactions) for at least a 16-day period that includes the ex-dividend date. Instead of claiming a credit, you may, if you so elect, deduct such Korean taxes in computing your taxable income, subject to generally applicable limitations under U.S. tax law. Korean taxes withheld from a distribution of additional shares that is not subject to U.S. tax may be treated for U.S. federal income tax purposes as imposed on general limitation income. Such treatment could affect your ability to utilize any available foreign tax credit in respect of such taxes.

Any Korean securities transaction tax or agriculture and fishery special surtax that you pay will not be creditable for foreign tax credit purposes.

Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is insubstantial.

The calculation of foreign tax credits and, in the case of a U.S. holder that elects to deduct foreign taxes, the availability of deductions involve the application of complex rules that depend on a U.S. holder's particular circumstances. You should consult your own tax advisers regarding the creditability or deductibility of such taxes.

U.S. Information Reporting and Backup Withholding Rules

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries are subject to information reporting and may be subject to backup withholding unless the holder (i) is a corporation or other exempt recipient and demonstrates this when required or (ii) provides a taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. Holders that are not U.S. persons generally are not subject to information reporting or backup withholding. However, such a holder may be required to provide a certification of its non-U.S. status in connection with payments received within the United States or through a U.S.-related financial intermediary.

Korean Taxation

The following summary of Korean tax considerations applies to you so long as you are not:

a resident of Korea;

a corporation organized under Korean law; or

engaged in a trade or business in Korea through a permanent establishment or a fixed base to which the relevant income is attributable or with which the relevant income is effectively connected.

Taxation of Dividends on Common Shares or ADSs

We will deduct Korean withholding tax from dividends paid to you (whether payable in cash or in shares) at a rate of 27.5% (inclusive of resident surtax). If you are a qualified resident in a country that has entered into a tax treaty with Korea, you may qualify for a reduced rate of Korean withholding tax. See [Tax Treaties](#) below for a discussion on treaty benefits. If we distribute to you shares representing a transfer of certain capital reserves or asset revaluation reserves into paid-in capital, that distribution may be subject to Korean withholding tax.

In order to obtain a reduced rate of withholding tax pursuant to an applicable tax treaty, you must submit to us, prior to the dividend payment date, such evidence of tax residence as the Korean tax authorities may require in order to establish your entitlement to the benefits of the applicable tax treaty (which will include a certificate of your tax residency issued by a competent authority of your country of tax residence).

If you hold ADSs, evidence of tax residence may be submitted to us through the depository.

Table of Contents***Taxation of Capital Gains From Transfer of Common Shares or ADSs***

As a general rule, capital gains earned by non-residents upon transfer of our common shares or ADSs are subject to Korean withholding tax at the lower of (1) 11% (inclusive of resident surtax) of the gross proceeds realized or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 27.5% (inclusive of resident surtax) of the net realized gain, unless exempt from Korean income taxation under the applicable Korean tax treaty with the non-resident's country of tax residence. See [Tax Treaties](#) below for a discussion on treaty benefits. Even if you do not qualify for an exemption under a tax treaty, you will not be subject to the foregoing withholding tax on capital gains if you qualify under the relevant Korean domestic tax law exemptions discussed in the following paragraphs.

In regard to the transfer of our common shares through the Korea Exchange, you will not be subject to the withholding tax on capital gains (as described in the preceding paragraph) if you (1) have no permanent establishment in Korea and (2) did not own or have not owned (together with any shares owned by any entity with which you have a certain special relationship) 25% or more of our total issued and outstanding common shares, which may include the common shares represented by the ADSs, at any time during the calendar year in which the sale occurs and during the five calendar years prior to the calendar year in which the sale occurs.

In regard to the transfer of ADSs outside Korea, under a tax ruling issued by the Korean tax authority in 1995 (the 1995 tax ruling), ADSs are treated as securities separate from the underlying shares represented by such ADSs and, based on such ruling, (i) capital gains earned by you from the transfer of ADSs to another non-resident (other than to such transferee's permanent establishment in Korea) will not be subject to Korean income taxation or withholding tax and (ii) capital gains earned by you (regardless of whether you have a permanent establishment in Korea) will be exempt from Korean income taxation by virtue of the Special Tax Treatment Control Law of Korea, or the STTCL, provided that the issuance of the ADSs is deemed to be an overseas issuance under the STTCL.

If you are subject to tax on capital gains with respect to the sale of ADSs, or of common shares you acquired as a result of a withdrawal, the purchaser or, in the case of the sale of common shares on the Korea Exchange or through a licensed securities company in Korea, the licensed securities company, is required to withhold Korean tax from the sales price in an amount equal to 11% (inclusive of resident surtax) of the gross realization proceeds and to make payment of these amounts to the Korean tax authority, unless you establish your entitlement to an exemption under an applicable tax treaty or domestic tax law or produce satisfactory evidence of your acquisition cost and transaction costs for the common shares or ADSs. To obtain the benefit of an exemption from tax pursuant to an applicable tax treaty, you must submit to the purchaser or the securities company, or through the ADR depositary, as the case may be, prior to or at the time of payment, such evidence of your tax residence as the Korean tax authorities may require in support of your claim for treaty benefits. See the discussion under [Tax Treaties](#) below for an additional explanation on claiming treaty benefits.

Tax Treaties

Korea has entered into a number of income tax treaties with other countries (including the United States), which would reduce or exempt Korean withholding tax on dividends on, and capital gains on transfer of, our common shares or ADSs. For example, under the Korea-United States income tax treaty, reduced rates of Korean withholding tax of 16.5% or 11.0% (depending on your shareholding ratio and inclusive of resident surtax) on dividends and an exemption from Korean withholding tax on capital gains are available to residents of the United States that are beneficial owners of the relevant dividend income or capital gains, subject to certain exceptions.

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You should inquire for yourself whether you are entitled to the benefit of a tax treaty between Korea and the country where you are a resident. It is the responsibility of the party claiming the benefits of an income tax treaty in respect of dividend payments or capital gains to submit to us, the purchaser or the securities company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the securities company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to obtain

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the benefit of a tax exemption on certain Korean source income (such as dividends or capital gains) under an applicable tax treaty, Korean tax law requires you (or your agent) to submit an application for tax exemption along with a certificate of your tax residency issued by a competent authority of your country of tax residence, subject to certain exceptions. Such application should be submitted to the relevant district tax office by the ninth day of the month following the date of the first payment of such income.

Inheritance Tax and Gift Tax

If you die while holding an ADS or donate an ADS, it is unclear whether, for Korean inheritance and gift tax purposes, you will be treated as the owner of the common shares underlying the ADSs. If the tax authority interprets depositary receipts as the underlying share certificates, you may be treated as the owner of the common shares and your heir or the donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax presently at the rate of 10% to 50%, provided that the value of the ADSs or common shares is greater than a specified amount.

If you die while holding a common share or donate a common share, your heir or donee (or in certain circumstances, you as the donor) will be subject to Korean inheritance or gift tax at the same rate as indicated above.

At present, Korea has not entered into any tax treaty relating to inheritance or gift taxes.

Securities Transaction Tax

If you transfer our common shares on the Korea Exchange, you will be subject to securities transaction tax at the rate of 0.15% and an agriculture and fishery special surtax at the rate of 0.15% of the sale price of the common shares. If your transfer of the common shares is not made on the Korea Exchange, subject to certain exceptions, you will be subject to securities transaction tax at the rate of 0.5% and will not be subject to an agriculture and fishery special surtax.

With respect to transfers of ADSs, a tax ruling issued in 2004 by the Korean tax authority (the 2004 tax ruling) appears to hold that depositary shares (such as the ADSs) constitute share certificates subject to the securities transaction tax; provided that, under the Securities Transaction Tax Law, the transfer of depositary receipts listed on the New York Stock Exchange, the Nasdaq National Market, or other qualified foreign exchanges is exempt from the securities transaction tax.

In principle, the securities transaction tax, if applicable, must be paid by the transferor of the common shares or ADSs. When the transfer is effected through a securities settlement company, such settlement company is generally required to withhold and pay the tax to the tax authorities. When such transfer is made through a securities company only, such securities company is required to withhold and pay the tax. Where the transfer is effected by a non-resident without a permanent establishment in Korea, other than through a securities settlement company or a securities company, the transferee is required to withhold the securities transaction tax.

Item 10F. Dividends and Paying Agents

Not Applicable

Item 10G. *Statements by Experts*

Not Applicable

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Item 10H. Documents on Display

We are subject to the information requirements of the U.S. Securities Exchange Act of 1934, as amended, and, in accordance therewith, are required to file reports, including annual reports on Form 20-F, and other information with the U.S. Securities and Exchange Commission. These materials, including this annual report and the exhibits thereto, may be inspected and copied at the Commission's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms. As a foreign private issuer, we are also required to make filings with the Commission by electronic means. Any filings we make electronically will be available to the public over the Internet at the Commission's web site at <http://www.sec.gov>.

Item 10I. Subsidiary Information

Not Applicable

Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Overview

Our lending and trading businesses, our deposit taking activities and our operating environment expose us to various risks. Our risk management goal is to understand, measure and monitor these risks and to ensure that our employees strictly adhere to the policies and procedures that we establish. We seek to take a conservative approach to risk management in order to better insulate our operations from adverse events. Risks we face include:

credit risk;

market risk (primarily interest rate risk, equity risk and foreign exchange risk);

liquidity risk; and

operational and business risk (including legal risk).

In 2004, we completed the implementation of a group-wide, standardized risk management system (except with respect to credit risk management and operational and business risk management). This system has enhanced our risk management capabilities by enabling us to exchange information among our and our subsidiaries' risk management operations. We use our risk management systems to manage our risks within acceptable limits and to otherwise ensure the soundness of our assets and the stability of our operations.

Standardization Strategy

We began the process of implementing a group-wide, standardized risk management system in connection with the establishment of our financial holding company structure in 2001. At that time, with the assistance of a third-party consultant, we established a task force to review and evaluate the risk management systems that our subsidiaries were using. Following this review, we determined our basic structure of risk management governance and established basic risk management policies and guidelines for our group. This required us to establish a new risk management system, including a centralized risk control system, in order to better measure and address the risks we face and to anticipate potential risks more precisely. We completed the implementation of a group-wide, standardized risk management system (except with respect to credit risk management and operational and business risk management).

We allocate our total risk capital in accordance with the guidelines set by our Group Risk Management Committee. As described in more detail below, the committee allocates:

risk capital with respect to credit risk, market risk, interest rate risk and operational and business risk with respect to each of our banking subsidiaries;

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risk capital with respect to credit risk, market risk, operational and business risk with respect to Woori Investment & Securities; and

operational and business risk with respect to our asset management subsidiaries.

Through our group-wide, standardized risk management system we allocate our risk capital:

with respect to our market risk based on a market value at risk, or VaR, system established in 2003; and

with respect to our interest rate risk based on a Stochastic Simulation which simulates the current portfolio's net present value at a 99.9% confidence level for a one-year holding period.

We do not have a group-wide, standardized risk management system for risk capital with respect to credit risk. As a result, we allocate such risk to each subsidiary according to the results of its own system and, on that basis, we allocate risk capital with respect to credit risk.

We allocate our risk capital with respect to operational risk through a standardized approach in accordance with Basel II. We also apply business risk when allocating such risk capital which is based on earnings at risk (a measurement of the relativity of our total earnings).

Our risk capital allocation, on a non-consolidated basis, with respect to 2006 is as follows:

	Available capital	Risk capital	Risk appetite	Credit	Market	Interest rate	Operational	Business	Other required capital	Correlation Effect	Buffer
(in millions of Won, except percentages)											
Woori Finance Holdings	(Won) 11,105	(Won) 10,333	93.1%	66.8%	8.8%	2.2%	7.1%	5.4%	11.7%	(8.9)%	6.9%
Woori Bank	9,691	7,852	81.0	63.6	5.4	1.9	6.0	3.1	7.8	(6.6)	19.0
Kyongnam Bank	567	462	81.6	58.8	7.7	3.0	8.9	7.3	6.4	(10.6)	18.4
Kwangju Bank	694	618	89.0	67.5	8.1	6.5	9.1	4.5	3.6	(10.2)	11.0
Woori Investment & Securities	1,995	1,423	71.3	22.7	17.6	0.0	4.6	11.0	24.3	(8.9)	28.7
Woori Credit Suisse Asset Management ⁽¹⁾	60.8	13	21.8	0.0	0.0	0.0	5.8	16.8	1.5	(2.3)	78.2

⁽¹⁾ Formerly known as Woori Asset Management.

Organization

We have a multi-tiered risk management governance structure. Our Group Risk Management Committee is ultimately responsible for group-wide risk management, and directs the various subordinate risk management entities. The Group Risk Management Council answers directly to the Group Risk Management Committee and coordinates the execution of these directives with the risk management units of our subsidiaries. Each Subsidiary Risk Management Committee, based on the Group Risk Management Committee's directives, determines risk management strategies and implements risk management policies and guidelines for the relevant subsidiary, sets the subsidiary's operational and business risk management policies and guidelines and directs the subsidiary's risk management units, but must keep within the group's risk guidelines. The Subsidiary Risk Management Committees generally receive input from their respective subsidiary risk management units, who report directly to the Group Risk Management Council.

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The following chart sets our risk management governance structure as of the date of this annual report:

From July 2004, we instituted a "double report" system with respect to our risk management procedures. Each of our subsidiary risk management units is required to submit risk management reports directly to the Group Risk Management Team. Through this internal reporting system, we are able to better ascertain and strengthen the monitoring of our subsidiaries' risk management and are able to quickly address any deviation from our group-wide risk policies.

The Group Risk Management Committee, the Group Risk Management Council and the Subsidiary Risk Management Committees are responsible for managing risks relating to credit, markets, asset and liability management and liquidity. A number of other entities are responsible for managing our operational risks, including the following:

the Audit Council, which reports to our board-level Audit Committee, coordinates the execution of our operational and business risk management policy, particularly with regard to internal subsidiary practices;

the Legal and Compliance Department monitors compliance risk and makes suggestions regarding regulatory issues to the Financial Supervisory Service; and

each Subsidiary Risk Management Committee manages operational risks at the relevant subsidiary.

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Group Risk Management Committee

The Group Risk Management Committee is our highest decision-making body with respect to our risk management operations. Our board of directors has delegated to it the authority and responsibility for ensuring effective executive-level management of the risks we face. The committee's major activities include:

determining and amending risk management strategies, policies, guidelines and limits in conformity with the strategy established by our board of directors;

determining the appropriate level of risks that we should be willing to undertake;

allocating risk capital to each subsidiary and approving our subsidiaries' risk limit requests;

reviewing our group-wide risk profile, including the level of risks we are exposed to and the status of our risk management operations; and

monitoring our subsidiaries' compliance with our risk policies.

The Group Risk Management Committee is comprised of our chief executive officer, our chief financial officer and five non-standing outside directors. It operates independently from all business units and individual board members, and reports directly to our board of directors. In addition, since our chief executive officer and chief financial officer are members of the committee, they are kept aware of risk-related issues. Our Group Risk Management Committee convenes at least quarterly, and makes decisions by majority vote of the attending members. At least a majority of the committee members must attend to constitute a quorum.

Group Risk Management Council

Our Group Risk Management Council is responsible for coordinating with the risk management units of our subsidiaries to ensure that they execute the policies, guidelines and limits established by the Group Risk Management Committee. The council's major activities include:

analyzing our risk status using information provided by our subsidiary-level risk management units;

adjusting the integrated risk-adjusted capital allocation plan and risk limits for each of our subsidiaries;

reviewing the key decisions of each Subsidiary Risk Management Committee, and discussing and resolving any risk management issues raised by those committees;

coordinating issues relating to the integration of our risk management functions; and

performing any other duties delegated by the Group Risk Management Committee.

The Group Risk Management Council is comprised of our chief risk management officer and the head of the risk management department of Woori Finance Holdings and the managing directors of the risk management units of all of our operating subsidiaries. It operates independently from all business units, and reports directly to the Group Risk Management Committee. Our Group Risk Management Council convenes on a monthly basis.

Our subsidiaries, in most cases through their respective risk management units, provide a variety of information to the Group Risk Management Council, including:

reports regarding the status of overall risk management, the status of limit compliance, analysis and results of quarterly credit reviews, stress testing and back testing; and

reports regarding asset and liability management matters, including changes in risk-weighted assets and the status of our credit portfolio on a periodic basis.

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Subsidiary Risk Management Committees

Each of our subsidiaries has delegated risk management authority to its Subsidiary Risk Management Committee. Each Subsidiary Risk Management Committee measures and monitors the various risks faced by the relevant subsidiary and reports to that subsidiary's board of directors regarding decisions that it makes on risk management issues. It also makes strategic decisions regarding the operations of the relevant subsidiary, such as allocating credit risk limits, setting total exposure limits and market risk-related limits and determining which market risk derivatives instruments the subsidiary can trade. The major activities of each Subsidiary Risk Management Committee include:

determining and monitoring risk policies, guidelines, limits and tolerance levels and the level of subsidiary risk in accordance with group policy;

reviewing and analyzing the subsidiary's risk profile;

setting limits for and adjusting the risk-adjusted capital allocation plan and risk levels for each business unit within the subsidiary; and

monitoring compliance with our group-wide risk management policies and practices at the business unit and subsidiary level.

Each Subsidiary Risk Management Committee is comprised of the subsidiary's chief executive officer, the non-standing members of its board of directors and the director of its risk management unit.

Each of Woori Bank, Kyongnam Bank and Kwangju Bank has established a similar multi-tiered risk management governance structure for its own operations. For example, Woori Bank's Subsidiary Risk Management Committee is ultimately responsible for risk management for that subsidiary. It provides subsidiary board-level direction regarding risk management strategies and policies to the risk management bodies that are subordinate to it. Woori Bank's Executive Risk Management Committee, which reports directly to Woori Bank's Subsidiary Risk Management Committee and chief executive officer, implements the execution of these strategies and policies. The Executive Risk Management Committee works with various Woori Bank business units, including its risk management unit and its individual business units. The risk management unit directly implements and ensures compliance with Woori Bank's risk policies and guidelines at an operational level. It monitors market risk and liquidity risk on a daily basis and credit risk and interest rate repricing gap risk on a monthly basis and makes quarterly reports to the Subsidiary Risk Management Committee and to the Group Risk Management Council, respectively.

Our non-banking subsidiaries generally have simplified risk management governance structures.

Credit Risk Management

Our credit risk management policy objectives are to improve our asset quality, reduce our non-performing loans and minimize our concentration risk through a diversified, balanced and risk-weighted loan portfolio. Through our subsidiaries, we manage credit risk and continually monitor and improve our credit risk-related policies and guidelines to reflect changing risks in our business and the industries and sectors in which our customers operate.

We believe that an essential part of achieving our credit risk management objectives is implementing a group-wide, standardized risk management system so that we can identify and manage the risks generated by our businesses using a standardized system. Each of Woori Bank, Kyongnam Bank and Kwangju Bank is currently using its own credit risk management system. In particular, Woori Bank, together with several external consultants, has since 2003 developed and implemented a centralized credit risk management system called the CREPIA system. In September 2004, we completed the development and implementation of the CREPIA system. CREPIA is a credit risk management system which combines credit risk management and the credit approval process on a transactional level with respect to individual borrowers and approval with respect to each individual

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loan or credit. This system quantifies credit risk using a distance of default methodology. This methodology relies on a review of a borrower's cash flow and the level of its outstanding credit, and identifies the point at which a borrower will default based on the interaction of these and other factors. We believe that CREPIA is a systematic and efficient credit evaluation system and that Woori Bank has expedited its loan review process and improved its ability to monitor and evaluate its overall risk profile by using this system. The main characteristics of CREPIA are as follows:

automation of credit risk management system, which allows us to centralize and automate many tasks relating to our credit risk management system;

automatic recognition and processing of different forms of credit, which allows us to process and approve different types of credit, such as new applicants, renewing applicants and changes in the condition of the loan or credit approved;

incorporation of credit risk management prior to approval of credit, which allows us to consider individualized characteristics of a borrower and enables us to calculate a more accurate price with respect to the loan or credit approved;

automatic credit risk monitoring after approval of credit, which allows us to evaluate and re-rate the loan or credit on a real-time basis as a result of any change in the characteristics of the borrower (including the condition of the underlying collateral, change in borrowing limit and early warning characteristics); and

automatic verification of internal procedures and regulations with respect to approval of credit, which reduces our operational risk and ensures that there are no material deviations from our loan and credit policies.

Since the second half of 2004, Kyongnam Bank has been using an upgraded system based on the system used by Woori Bank. In the case of Kwangju Bank, we expect its upgraded system to be completed by 2006.

From 2004, we also established a credit risk limit for each of our banking subsidiaries with respect to large exposures. We aim to avoid concentrations of exposure with respect to any single corporate borrower or affiliated group of corporate borrowers. Accordingly, we have established aggregate exposure limits based on each of our banking subsidiaries' capital adequacy levels and, with respect to individual corporate borrowers, established limits by dividing the expected loss with respect to companies affiliated with such corporate borrower with the unexpected loss (a measurement of credit risk) of such borrower and converted that into an exposure amount. We use this as the basis for our large exposure limits with respect to such corporate borrower.

From 2005, we also established a similar credit risk limit for each of our banking subsidiaries, Woori Investment & Securities and Woori F&I with respect to investment in private equity funds. Much like large exposure limits with respect to corporate borrowers, we aim to avoid concentrations of exposure with respect to any single private equity fund or affiliated group of funds. Accordingly, we have established aggregate investment limits based on each of the capital adequacy levels of our banking subsidiaries, Woori Investment & Securities and Woori F&I and, with respect to limits on each opportunity to invest, established limits depending on whether the target fund is an affiliate, or our participation or the participation by our subsidiaries is as a limited or general partner.

We use our credit risk management systems to measure and control credit risk, to evaluate and approve new credit and to review and monitor outstanding credit. We conduct various quantitative and qualitative analyses to establish acceptable risk levels that provide what we believe are appropriate levels of return on investments. The credit risk management systems that we use to do this integrate various data, including customers' financial and economic condition, limits on loans and guarantee amounts, cash flow evaluations, collateral levels, our desired profit margin and the likelihood of unexpected loan losses.

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Each subsidiary monitors its level of risk, determines how that level compares to our target optimized level of risk on a monthly basis and produces risk analysis reports and optimization reports on a monthly basis and stress test reports on an ad hoc basis. These reports, which are sent monthly to the respective Subsidiary Risk Management Committees and quarterly to the Group Risk Management Committee, provide a basis to set risk limits for, and allocate capital to, a subsidiary's business units.

Credit Evaluation and Approval

Our subsidiaries evaluate the credit of every loan applicant and guarantor before approving any loans, except for:

loans guaranteed by letters of guarantee issued by the Korea Credit Guarantee Fund, the Korea Technology Credit Guarantee Fund or certain other specified Korean government-controlled funds;

loans guaranteed by highly rated banks;

loans fully secured by deposits with us; and

loans against commercial promissory notes issued by creditworthy companies at a discount to the face value of the note determined by the issuer's creditworthiness.

The evaluation and approval process differs depending on whether the loan is a corporate loan, a general household consumer loan, or a mortgage or home equity loan, and there is a separate process for credit card applications. Although each of our commercial banking subsidiaries currently uses slightly different credit scoring and approval systems in determining whether to approve a loan, we currently plan to implement a standardized expected loss and unexpected loss credit risk system at each of our operating subsidiaries. Implementing a standardized system will enable us to better allocate risk capital on a group-wide basis by evaluating unexpected loss (a measurement of credit risk), VaR (a measurement of market risk) and earnings at risk (a measurement of whether our assets and liabilities are mismatched). We also intend to standardize our risk-adjusted performance measurement system and implement that system on a group-wide basis.

Our subsidiaries have undertaken a number of initiatives to develop credit evaluation and loan approval procedures that are more systematic and efficient. We prefer to use credit rating systems in our credit evaluation and loan approval process because they:

yield a uniform result regardless of the user;

can be used effectively by employees who do not have extensive experience in credit evaluation;

can be easily updated to reflect changing market conditions by changing how factors are weighted;

significantly limit the scope of employee discretion in the loan assessment and approval process; and

improve loan processing times while generally resulting in declines in delinquencies among new borrowers.

For example, in September 2004 Woori Bank introduced its CREPIA credit evaluation system for corporate loans (including small- and medium-sized enterprise loans) and a consumer credit evaluation system for consumer loans. Following the introduction of its consumer credit evaluation system, Woori Bank substantially reduced the authority of branch managers and loan officers to approve consumer loans based solely on their own judgment. Woori Bank's consumer loan approval process historically took as long as three days, but now generally takes less than 24 hours even when applications are reviewed by headquarters personnel. Kyongnam Bank and Kwangju Bank have a similar evaluation and approval process, and currently operate similar but less advanced systems. We plan to upgrade Kyongnam and Kwangju Banks' evaluation systems by using Woori Bank's CREPIA system as a benchmark.

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Customers apply for loans by submitting a loan application through one of our subsidiaries' branches. These applications are initially reviewed using the appropriate credit evaluation system and, in the case of applications for a small amount or involving applicants with little or no credit risk, are approved by the branch manager or a relationship manager acting in concert with a credit officer based on the credit risk rating they receive under that system. Applications for larger loans and loans which are determined to involve greater credit risk are approved by bodies with greater authority, depending on where those loans fall in a matrix of size, collateral and credit risk. These loan applications will be referred to a credit officer committee at a bank office located near the customer, which may or may not be at the subsidiary's headquarters. Every credit officer committee is made up of credit officers from headquarters and has the same level of authority. Applications that cannot be approved by a credit officer committee are referred to a senior credit officer committee or the Loan Committee of the relevant subsidiary, depending on loan size, collateral and credit risk. The following table sets forth as an example the various Woori Bank committees and personnel involved in its credit evaluation and loan approval process:

<u>Committee</u>	<u>Members</u>	<u>Approval Process</u>
Headquarters Approval		
Loan Committee	Head of the credit management unit, head of the risk management unit and other members selected by the bank chief executive officer (no more than seven persons)	Approval by majority; majority required to participate
Headquarters/Regional Approval		
Senior Credit Officer Committee	One head senior credit officer and four to six other senior credit officers (five to seven persons)	2/3 required for approval; 2/3 required to participate
Credit Officer Committee	At least one senior credit officer and two other credit officers (at least three persons)	2/3 required for approval; 2/3 required to participate
Individual Approval		
Senior Relationship Manager	Individual	Approval of the individual
Relationship Manager	Individual	Approval of the individual
Branch Manager	Individual	Approval of the individual

Different individuals or committees review and approve loan applications depending on various factors, including:

the size and type of the loan;

the level of credit risk established by the credit rating system;

whether the loan is secured by collateral; and

if the loan is secured, an assessment of the collateral.

Loan applications are generally reviewed only by the highest-level committee required to approve the loan, although multiple reviews, including separate reviews at the branch, regional and headquarters level, may occur depending on the size and terms of any particular loan or a borrower's credit risk.

Corporate Loan Approval Process

Each of our banking subsidiaries' branches reviews corporate loan applications using a credit evaluation system for corporate borrowers. Although these systems currently differ among our subsidiaries, we plan to standardize these systems as part of our group-wide, standardized risk management system by the end of 2006. Each corporate credit evaluation system measures various quantitative and qualitative factors. The model used by the credit evaluation system to review an application depends, however, on certain characteristics of the potential

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borrower. For example, Woori Bank's credit risk management department, together with its large corporate loan department and small- and medium-sized enterprise loan department, has developed separate credit evaluation models for large corporate borrowers, small- and medium-sized enterprises and SOHO borrowers. In general, each model uses scores from both a computerized evaluation of quantitative financial factors, such as cash flow and income, and more qualitative factors which are scored using judgments by the credit officer or officers reviewing the application to produce an overall credit risk rating. These credit evaluation systems provide our subsidiaries with tools to make consistent credit decisions and assist them in making risk-based pricing decisions. For example, Woori Bank's CREPIA system, depending on whether the borrower is audited by independent auditors and its size, produces two separate scores based on one of seven rating models: one for quantitative current financial factors, which is weighted 60% in determining the CREPIA credit risk rating, and another for the more qualitative factors that the judgment of our credit officers plays a more significant part in determining, which is weighted 40%. The CREPIA credit risk rating estimates the probability that Woori Bank will recover extended credits and the likelihood that borrowers will default. Qualitative factors included in CREPIA include:

a customer's future financial condition;

its competitive position in the industry;

its industry situation;

the quality of its management;

its technological merits;

its operations;

the nature and the location of any collateral; and

our level of priority in that collateral to estimate non-recovery risks.

These qualitative factors are input into the CREPIA system by the credit officer, and are scored based on his or her historical experience and that of the bank.

The CREPIA system produces separate credit risk ratings for each borrower and for each loan requested by that borrower. Woori Bank's credit analysis and approval center evaluates and approves corporate loan applications based on these credit risk ratings. The CREPIA system assigns each borrower and facility a credit risk rating grade from one to ten. Grades from one to six are normal, grade seven is precautionary, eight substandard, nine doubtful and ten estimated loss. In addition, each grade between two and six can be plus, neutral or minus, meaning there are 20 possible ratings. Loan applications rated grade six minus or worse are automatically subject to review by a credit officer committee or its Loan Committee. Certain loans are subject to review by the Loan Committee depending on the size of the loan and the determined credit risk rating. Examples of this include loan applications for secured loans in excess of (Won)60 billion regardless of the borrower's or facility's credit risk rating, and, at the other extreme for unsecured loans, loan applications in excess of (Won)4 billion for a borrower or facility with a credit risk rating of seven. Applications from borrowers with loans on a subsidiary's watch list (see Credit Review and Monitoring below) are also automatically reviewed by its Loan Committee.

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Our subsidiaries use the same systems to evaluate and approve applications from small- and medium-sized enterprises that they use to evaluate other corporate borrowers, but use different credit evaluation models. For example, Woori Bank implemented its current credit evaluation models for small- and medium-sized enterprise customers in September 2004. These models, which are incorporated into the CREPIA system, use the same quantitative and qualitative factors that Woori Bank uses to evaluate other corporate customers. However, the small- and medium-sized enterprise models apply a 40% weighting to the score derived from quantitative factors and a 60% weighting to the score derived from the more flexible qualitative factors in determining the credit risk rating. In September 2004, Woori Bank introduced a separate credit evaluation model to evaluate newly opening small- and medium-sized enterprises that relies solely on qualitative factors. Woori Bank has also adopted a

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separate credit evaluation system for SOHOs (such as pharmacies, clinics and restaurants) that uses simpler credit evaluation models and resembles our application scoring system for new retail customers.

Woori Bank supplements the CREPIA evaluation by testing potential exposures with another separate model that is an element of its portfolio management system. This model analyzes information based primarily on current factors, such as a potential borrower's stock price. This model provides a check on potential lending, including potential deterioration of outstanding credits, in cases where there have been significant changes in a borrower's status that may not be fully reflected in its most recently available quantitative or qualitative data.

We have set credit limits for our corporate customers. Some of these limits, particularly those imposed by Korean banking regulations, apply to all of our subsidiaries, and are aimed at preventing loan concentrations relating to any single customer. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholder. In certain cases, our subsidiaries have introduced even stricter exposure limits than required by regulation, including additional limitations on providing credit to certain borrowers. In September 2001, for example, Woori Bank introduced and implemented internally developed large exposure limits that are stricter than the applicable Financial Supervisory Commission requirements.

In evaluating applications, credit officers or the Loan Committee will often, in addition to reviewing ratings from these credit evaluation models, also refer to corporate information gathered or ratings assigned by external credit rating agencies, such as the Korea Federation of Banks, Korea Information Service, Korean government-released information on bankruptcy rates, National Information & Credit Evaluation Inc. and Korea Management Consulting & Credit Rating Corporation. They review the information we obtain from these sources and compare it to the information we have developed internally with respect to our customers to improve the accuracy of our internal credit ratings.

Consumer Loan Approval Process

The consumer loan department of each of our banking subsidiaries evaluates and approves consumer loan applications using dedicated consumer credit evaluation systems. Although these systems differ slightly among our banking subsidiaries, we intend to install an standardized system, which we expect will be based on Woori Bank's current process, as part of our group-wide, standardized risk management system. Each of these consumer credit evaluation systems uses a standardized credit scoring system to evaluate and approve consumer loan applications and determine the appropriate pricing for the loan. Each consumer credit evaluation system measures various quantitative factors to produce a credit score for each application. As similarly situated consumer loan customers generally have similar performance profiles when evaluated collectively, these systems enable us to better evaluate individual customers using group characteristics.

Woori Bank, for example, began using its consumer credit evaluation system to review consumer loan applications in September 2004. That system assigns a credit score to each application based on its evaluation of various factors. These factors include any loan and guarantee limits we have set for particular borrowers or groups of borrowers and our evaluation of their cash flows and credit profiles. The system gives each customer's loan application a score from one to ten. Applications with scores of one to six can be automatically approved at the branch or regional level. Applications with scores of seven are subject to further evaluation at the bank's regional office or headquarters. Scores from eight to ten are automatically rejected. From March 2006, we also have added another scoring system based on the external ratings provided by the Korea Credit Bureau. Under this system, applications with scores of one to six are considered approved, applications with scores of seven to eight are considered subject to further evaluation and applications with scores of nine to ten are considered automatically rejected. We then combine the scores of these two systems to determine each customer's loan application. Woori Bank uses this system to evaluate all new consumer loan applications, except for loans fully secured by deposits with us.

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Woori Bank augmented its consumer credit evaluation system with its behavioral scoring system in July 2001. The behavioral scoring system enhances the consumer credit evaluation system by enabling the consideration of factors not previously evaluated, including the customer's spending history and credit behavior. By the nature of the information it analyzes, however, the behavioral scoring system can only be used for applications of persons who are existing borrowers, generally consisting of roll-overs of outstanding amounts or increases to existing credit limits.

We also evaluate any collateral to which a loan application relates. At the time of the initial loan, we will review the proposed collateral using both internal review processes and outside parties that provide automated property evaluation services. For example, Woori Bank automatically re-evaluates the underlying collateral for secured loans and mortgages every two weeks (with respect to apartments) or semi-annually (with respect to other buildings). If the value of the collateral declines, we may have the ability to require that the borrower provide more collateral or to change the payment terms of the relevant loan.

Credit Card Approval Process

We have worked to ensure that risk management and credit extension policies with respect to our credit card operations reflect our group-wide risk management policies and guidelines. Although Woori Credit Card merged with Woori Bank in March 2004, we maintain those credit card operations as a separate business unit within Woori Bank, and that business unit maintains separate credit risk management policies and procedures. Prior to the merger, the credit card business of Woori Bank (in February 2002) and Kwangju Bank (in March 2003) had been integrated into Woori Credit Card, which had its own independent credit card approval process.

Woori Bank's credit card business unit reviews each new card application for completeness, accuracy and creditworthiness. It bases this review on various factors that assess the applicant's ability to repay borrowed amounts. The review process involves three stages:

Initial Application Process. The credit card business unit verifies basic information by requesting certain documents from the applicant, generally contacts the applicant directly (usually by telephone, although there are personal visits to some applicants) and statistically analyzes the applicant's personal credit history together with financial and default information gathered from third-party sources and its internal database. The analysis considers various factors including employment, default status and historical relationships with Woori Bank and any delinquency history with other credit card companies. The credit card business unit also reviews information about an applicant obtained from external databases maintained by the Korea Federation of Banks, Korea Information Service Inc. and a consortium of eight Korean credit card providers.

Application Scoring System Process. The current application scoring system at the credit card business unit was developed by a third party and is a legacy of Woori Bank's original credit card business unit, where it was introduced in October 2001 and subsequently upgraded from February 2003 to February 2004. The system is a standardized evaluation tool used to determine the probability of a credit card applicant defaulting during the one-year period following issuance. The application scoring system, using a statistical model, assigns risks to factors that indicate a probability of non-payment. The model analyzes credit history, occupation, income, gender and age data to develop a combined risk score. The applicant's eligibility to receive a credit card and credit limit is determined by its anticipated delinquency ratio over 90 days within one year.

Credit Assessment. If the application is approved, then the application scoring system assessment is used to determine the applicant's credit limit. The aggregate credit limit for a new applicant who is an individual rarely exceeds (Won)20 million. There is a separate but similar system for determining the credit limit available to corporate card applicants, which will generally be higher than limits available to individual applicants but will not provide for the ability to obtain cash advances.

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The initial application process is handled at Woori Bank's branch level. Final credit approval is subject to the application scoring system review conducted at Woori Bank's headquarters. The entire approval process generally takes two to three days and the applicant receives the new card within one week after making an application. The credit card business unit evaluates and updates the application scoring system on a monthly basis (or more frequently as required) to incorporate new data or adjust the importance placed on existing data or market conditions.

Kyongnam Bank and Kwangju Bank currently operate a similar application process, although in the case of Kyongnam Bank, the approval process itself takes place within BC Card.

Recent government initiatives have impacted our ability to provide credit cards to more marginal borrowers. See Item 4B. Business Overview - Supervision and Regulation - Credit Card Business.

Credit Review and Monitoring

Our credit review and monitoring procedures are designed to reduce the risks of deterioration in our asset quality and to maintain acceptable levels of portfolio risk. These procedures include:

confirming a borrower's credit rating or score;

ensuring the accuracy of the credit analysis done by our credit officers; and

ensuring compliance with internal policies relating to loan approval.

We believe that these procedures enable us to identify potential non-performing loans as soon as possible and minimize the possibility of approving in advance loans that will become non-performing. These procedures also enable us to manage credit risk more effectively and set interest rates to more accurately reach our targeted level of return.

Loan Review and Monitoring

Each of our banking subsidiaries monitors credit risk with respect to its borrowers using its own loan review system. Each banking subsidiary has a loan review department that oversees its review and monitoring efforts. After a loan has been approved, the relevant materials or the results generated by the subsidiary's relevant credit evaluation system, together with any supporting data, are reviewed by an officer in that department. There are three types of reviews that our subsidiary loan review units undertake:

Desk review. Desk reviews are the most common and are generally done within five days after a loan has been approved. Although the process is similar, different loans are automatically reviewed by our subsidiaries based on the size of the loan. At Woori Bank, for example, the loan review department will initiate a desk review of loans approved by a credit officer committee or the Loan

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Committee of the subsidiary, for any corporate loan that exceeded (Won)5 billion, any consumer loan that exceeded (Won)1 billion, any loan to a housing applicant group that exceeded (Won)5 billion or any loan where the loan terms were adjusted. For loans originating from a branch, the loan review department will initiate a desk review for new domestic loans or credit limit increases that exceed (Won)300 million. For new overseas loans, desk reviews are conducted for amounts that exceed US\$300,000.

Periodic review. Periodic reviews are done on a quarterly, semi-annual or annual basis with respect to loans that are current and exceed (Won)10 billion or with respect to borrowers who are on a watch list with respect to possible insolvency. Quarterly periodic reviews are done for certain corporate borrowers, depending on their size and the borrower's industry.

Ad hoc review. Ad hoc reviews can be done at any time. The head of the subsidiary risk management department or the chief executive officer or chief financial officer of the respective subsidiary can initiate ad hoc reviews. Loan review officers who are responsible for desk and periodic reviews also conduct ad hoc reviews.

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Following a review, the subsidiary's sales office may hold additional meetings with the borrower and adjust the loan amount or the borrower's credit rating. The loan review department may also direct sales office personnel to institute early collections or to adjust a borrower's credit rating, total exposure and asset portfolio without consulting the borrower. The loan review officer may request that the credit officer adjust a borrower's credit ratings based on various factors, including asset quality, credit limits, applied interest rates and our credit policies. We also continually review other factors, such as industries in which borrowers operate and their domestic and overseas assets and operations, to ensure that our ratings are appropriate.

Woori Bank monitors and manages its exposures to and credit limits for corporations and *chaebols* on a daily basis. Woori Bank uses its Total Exposure Management System to make real-time inquiries regarding its exposures, either by company or by *chaebol*, and to manage the credit limits for all kinds of business transactions. Woori Bank monitors and analyzes these exposures on a monthly basis. Corporate borrowers on Woori Bank's watch list are monitored more closely and with respect to additional aspects of their relationships with us. Woori Bank places borrowers on its watch list when it believes that any impediment on a borrower's ability to meet its financial obligations exists or is pending. Woori Bank may also monitor newly extended credits or any additional credits extended to a previous borrower more frequently if it believes additional monitoring is necessary after reviewing the loan approval process. Credits outstanding to a particular industry or region that Woori Bank believes are higher risk are monitored even more frequently. Based on the results of such monitoring, the loan review department of each of our subsidiary banks provides monthly reports to its chief executive officer and its Subsidiary Risk Management Committee. Kyongnam Bank and Kwangju Bank also monitor their exposures to corporate borrowers but only on a monthly basis and using less advanced systems.

The consumer loan department of each of our banking subsidiaries has the ability to conduct daily surveillance on the status of its retail borrowers through an on-line system established by the Korea Federation of Banks. This system, which tracks consumer loans at all major Korean banks and non-banking institutions, permits us to track all loan defaults by any borrower. We evaluate the need to monitor consumer loans by using our consumer credit evaluation system, including, in the case of Woori Bank, its behavioral scoring system, and make adjustments to the credit scoring formula based on the results of that process.

Each subsidiary's loan review department in its risk management unit is required to submit monthly loan review reports and quarterly deficiency reports to the chief executive officer and the head of the risk management unit of that subsidiary. The chief executive officer then provides feedback to the relevant sales offices of the banking subsidiary's branches through that subsidiary's auditing team or relevant business unit. Based on these reports, we or our subsidiaries may, for example, stop lending to particular borrowers, change credit limits or modify our loan approval procedures. We do not monitor loans to certain borrowers, such as loans to government entities such as the KDIC or to companies in workout proceedings.

Credit Card Review and Monitoring

Woori Bank's credit card business unit monitors its risk exposure to individual accounts on a regular basis. It monitors each customer's card usage trends and negative credit data such as delinquency information through both its own credit risk management system (which was developed with the assistance of an outside consultant) and BC Card's similar system (which BC Card maintains for its member banks). These systems monitor the behavior of users of credit cards issued by Woori Bank or Woori Credit Card, using both internally generated information and information from external sources. The credit card business unit statistically analyzes this information to estimate each customer's creditworthiness on a monthly basis. The credit risk management system is an integral part of the credit practices at the credit card business unit and is used to determine increases or decreases in credit limits, reset interest rates, set fee levels, authorize special transactions and approve card loans using criteria such as:

how much credit each customer has incurred in the past (i.e., frequency and amount of payments);

whether a customer uses his card to make credit card purchases or to get cash advances;

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internal credit scores; and

whether the customer has been delinquent in making payments.

After assigning appropriate weightings to each factor, the system computes a behavior score and uses that score to classify each cardholder. Each customer's credit limit is subject to adjustment in accordance with the monthly updated score. The credit card business unit uses these results and the results of its application scoring system to evaluate its credit risk management system and make adjustments to its credit scoring formula based on the results of that process.

The credit card business unit's credit risk management system has also been able to run various simulations in connection with monitoring its operations, including:

new product simulations, which predict a customer's likely spending pattern when using a new credit card product and analyzes that pattern to predict the new product's costs, delinquencies and profitability; and

credit use limit simulations, which test whether a customer's credit limit has been properly set by simulating an increase or decrease of that limit.

The credit card business unit's credit administration team manages customer credit risk for users of credit cards issued by Woori Bank or Woori Credit Card. It reviews and updates its underwriting, credit evaluation, collection, servicing and write-off procedures, and the terms and conditions of card agreements, from time to time in accordance with its business practices, applicable law and guidelines issued by regulatory authorities. Kyongnam Bank currently operates customer credit risk with respect to its credit card business using the BC Card system.

Early Warning Systems

Each of our banking subsidiaries and Woori Bank's credit card business unit have developed separate early warning systems that monitor the status of both commercial and retail borrowers and evaluate all of a customer's outstanding credits. These systems monitor various factors, including the financial status, financial transaction status, industry rating and management status of borrowers. They enable our subsidiaries to find defaults and signs of potential delinquency in advance, monitor these problematic credits properly before any default or delayed payment occurs and keep track of information on the credit status of borrowers. Updated information is input as it becomes available, either automatically from internal and external sources or manually. This information includes data relating to:

credit evaluation and monitoring system results, which determine if a borrower should be put on a watch list;

loan transactions, such as a borrower's remaining line of credit and whether it has any dishonored notes, overdue loans or setoffs with respect to collateral deposits which have not matured;

deposit transactions, such as any decrease in a borrower's average deposit balance, requests for large volumes of promissory notes or checks, or the inability to pay immediately available funds owed when due;

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foreign exchange transactions, such as unpaid amounts of a borrower's purchased export bills that have exceeded the maturity date; and

other information, such as a borrower's management and employees, business operations, production operations, financial affairs and accounting operations and bank transactions.

We also monitor borrowers' credits through on-line credit reports that are provided by Korea Information Service and National Information & Credit Evaluation, Inc., which are Korean credit reporting agencies.

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After gathering this information, for example at Woori Bank, the CREPIA system reviews such information to monitor any changes that could affect the credit rating of the borrower, approval conditions with respect to the loan or credit, underlying collateral or assigned credit limit of the borrower. Depending on the likelihood of the change, the system automatically sends a signal to the responsible credit officer. The officer then evaluates the information and formulates an action plan, which could result in an adjustment in the borrower's credit rating or loan pricing, a re-evaluation of the loan or the taking of other preventative measures.

Credit Remediation

We believe that by centralizing the management of our non-performing credits within each subsidiary, we can implement uniform policies for non-performing credit resolution, pool institutional knowledge and create a more specialized (and therefore more efficient) work force. Each of our subsidiaries has a unit that is responsible for managing non-performing loans. At Woori Bank, for example, the Credit Management and Collection Center generally oversees the process for resolving non-performing loans transferred to it by other Woori Bank business units. 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 the unit will take legal action, and prepare for legal action. At the same time, we initiate our non-performing loan management process. 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 commencing collection proceedings or legal actions and writing off such loans, transferring them to subsidiaries in charge of collection and authorizing those subsidiaries to recover what they can. We have also disposed of a number of non-performing credits to KAMCO, as well as through non-performing loan joint ventures with several financial institutions and in other asset securitization transactions. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Non-Performing Loans Non-Performing Loan Strategy.

Market Risk Management

The principal market risks to which we are exposed are interest rate risk, equity risk and, to a lesser extent, foreign exchange risk. We divide market risk into risks arising from trading activities and risks relating to management of our assets and liabilities. The financial instruments that expose us to market risks are primarily trading and available-for-sale securities and financial derivatives.

Our Group Risk Management Committee establishes our risk capital allocation and risk limits for our trading activities. The Group Risk Management Committee has delegated the responsibility for coordinating market risk management for trading activities to the Group Risk Management Council. The risk management units of each of our subsidiaries coordinates with the Group Risk Management Council. These units review on a daily basis reports that include trading profits and losses, position reports, stress test results and value at risk results for our trading activities. Any violations of our risk limits are reported to the Group Risk Management Team.

Market Risk Management for Trading Activities

We measure market risk from trading activities to monitor and control the risk of our business groups and teams that perform those activities. Our trading activities consist of:

trading activities for our own account to realize short-term trading profits in debt (primarily Won-denominated), equity and foreign exchange markets based on our forecasts of changes in market situation and customer demand; and

trading activities involving derivatives transactions, including swaps, forwards, futures and options, primarily to sell derivatives products to our customers and to hedge our own market risk.

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Market risk arising from our trading activities can be subdivided into interest rate risk, equity risk and foreign exchange risk:

Interest rate risk is a significant risk to which our trading activities are exposed. This risk arises primarily from our debt securities (which are primarily held by Woori Bank). We set different risk limits for our interest rate risk for our trading and non-trading debt portfolios.

Equity risk arises from price and volatility fluctuations in equity securities.

Foreign exchange risk arises from foreign currency-denominated assets and liabilities in both our trading and non-trading accounts and financial derivatives involving foreign currencies, which are not controlled separately on a trading and asset/liability management basis.

The Group Risk Management Committee monitors market risk both for the group and for each subsidiary individually. See Standardization Strategy. We have established market risk limits with respect to our subsidiaries as shown in the following table:

	Trading Portfolio			Non-Trading Portfolio	
	VaR Limit	Accumulated Loss Limit			PVBP Limit
		Quarter	Annual		
	(in billions of Won)				
Woori Bank	(Won) 26.8	(Won) 82.5	(Won) 165.0	(Won) 2.05	
Kyongnam Bank	2.7	7.8	15.6	0.16	
Kwangju Bank	2.1	6.1	12.2	0.19	

Each of our subsidiaries generally manages its market risk at the entire portfolio level, rather than on a credit-by-credit basis. To control its exposure, each of our subsidiaries takes into consideration the maximum VaR limits, accumulated loss limits and PVBP limits set by the Group Risk Management Committee in determining its internal allocation of risk among its various portfolios. Each subsidiary also sets its own stop loss limits with respect to particular types of transactions. Each subsidiary uses an integrated market risk management system called Panorama to manage market risks for its debt and equity trading operations. This system enables each subsidiary to generate consistent VaR numbers for all of its trading activities.

Value at Risk analysis. We use daily VaR to measure market risk. Our daily VaR is a statistically estimated maximum amount of loss that can occur for a day. We use a 99% confidence level to measure our daily VaR, which means the actual amount of loss may exceed the VaR, on average, once out of 100 business days. We use the variance-covariance method which takes into account the diversification effects among different risk factors as well as within the same risk factor. This method is based on two assumptions: first, that the distribution of risk factors is normal; and, second, that the income statement is a quadratic function of the returns, as opposed to a linear function.

Although VaR is a commonly used market risk management technique, it has some inadequacies. Since it is a statistical approach, VaR estimates possible losses over a certain period at a particular confidence level using past market movement data. Past market movements, however, are not necessarily a good indicator of future events. Another problem with VaR is that the time periods used for the model, generally one or ten days, are assumed to be a sufficient holding period before liquidating the relevant underlying positions. If these holding periods are

not sufficient, or too long, VaR may understate or overstate the potential loss.

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The following table shows our daily VaR for each of Woori Bank, Kyongnam Bank and Kwangju Bank as of December 31, 2003, 2004 and 2005, at a 99% confidence level for a one-day holding period, for interest rate risk, foreign exchange risk and equity risk relating to our trading activities.

	<u>Interest Rate Risk</u>	<u>Equity Risk</u>	<u>Foreign Exchange Risk</u>	<u>Less: Diversification</u>	<u>VaR for Overall Trading Activities</u>
(in millions of Won)					
As of December 31, 2003					
Woori Bank	(Won) 1,841	(Won) 14,073	(Won) 504	(Won) 1,370	(Won) 15,049
Kyongnam Bank	265		31		296
Kwangju Bank	357		3		360
As of December 31, 2004					
Woori Bank	7,598	7,335	406	4,579	10,761
Kyongnam Bank	289	0	15	0	304
Kwangju Bank	274	0	18	0	292
As of December 31, 2005					
Woori Bank	2,139	4,088	587	2,221	4,593
Kyongnam Bank	359	1,103	35	175	1,322
Kwangju Bank	270	105	6	6	375

Stress test. In addition to VaR, we perform stress testing to measure market risk. As VaR assumes normal market situations, we assess our market risk exposure to abnormal market fluctuations through stress testing. Stress testing is an important way of supporting VaR since VaR is a statistical expression of possible loss under a given confidence level and holding period. It does not cover potential loss if the market moves in a manner that is outside our normal expectations. Stress testing projects the anticipated change in value of holding positions under certain scenarios assuming that we take no action during a stress event to change the risk profile of a portfolio. The following table shows, for each identified subsidiary, the loss that would have occurred in its trading portfolio as of December 31, 2005 for assumed short-term extreme changes of a +/-30% change in the equity market and a +/-100 basis point change from interest rates prevailing in the market on that date, under an abnormal stress environment.

(in billions of Won, except percentages)

Equity Market Chart						
Market fluctuation amount	(30)%	(20)%	(10)%	10%	20%	30%
Woori Bank	(Won) (12.9)	(Won) (12.5)	(Won) (7.7)	(Won) 15.2	(Won) 37.5	(Won) 64.8
Kyongnam Bank	(12.8)	(8.5)	(4.3)	4.3	8.5	12.8
Kwangju Bank	(0.6)	(0.4)	(0.2)	0.2	0.4	0.6

(in billions of Won, except percentages)

Interest Rate Chart						
Basis point fluctuation amount	(100) basis					
	points	(50) basis points	(25) basis points	25 basis points	50 basis points	100 basis points
Woori Bank	(Won) 14.3	(Won) 7.2	(Won) 3.6	(Won) (3.6)	(Won) (7.2)	(Won) (14.3)
Kyongnam Bank	2.4	1.2	0.6	(0.6)	(1.2)	(2.4)
Kwangju Bank	1.4	0.7	0.4	(0.4)	(0.7)	(1.4)

Stop loss limits. Our Subsidiary Risk Management Committees have also set total accumulated loss and stop loss limits. For example, Woori Bank has the following stop loss policy:

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for equity securities in Won, within 30% of the book value of each purchase;

for fixed income securities, within 5% of the book value of securities;

for trading securities in foreign currencies, within 5% of the book value of such securities at the end of the previous financial year;

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for investment securities in foreign currencies, within 15% of the book value of such securities at the end of the previous financial year;

for foreign currency stop limit with respect to forward currency contracts, within 20% of the purchase or sale price;

for equity related trading derivatives, within 5% of the transaction value;

for other trading derivatives, within 5% of the transaction value; and

for unhedged foreign exchange positions, within 20% of the stockholders' equity for the prior period.

Interest Rate Risk

Interest rate risk from trading activities arises mainly from our trading of Won-denominated debt securities. Our trading strategy is to benefit from short-term movements in the prices of debt securities arising from changes in interest rates. As our subsidiaries' trading accounts are marked-to-market daily, each of our subsidiaries manages its interest rate risk related to our trading accounts using market value-based tools such as VaR. See [Asset and Liability Management](#) [Interest Rate Risk](#).

Equity Risk

Equity price risk and equity volatility risk result from our subsidiaries' equity portfolios consisting of futures contracts and options and Won-denominated equity securities, as a result of the strict limits we have imposed with respect to VaR, accumulated loss and stress test limits imposed by our Subsidiary Risk Management Committees within the overall limits imposed by the Group Risk Management Committee and stress test limits. Equity risk arises in the context of trading activities for our own accounts to realize short-term trading profits with respect to equity and trading activities involving derivatives transactions. These include swaps, forwards, futures and options entered into primarily on behalf of our customers and to hedge our own market risk.

Foreign Exchange Risk

Foreign exchange risk arises because we have assets, liabilities and off-balance sheet items such as foreign exchange forwards and currency swaps that are denominated in non-Won currencies. The difference between each of our subsidiaries' foreign currency assets and liabilities is offset against forward foreign exchange positions to obtain its net foreign currency open position. We then net the positions of our subsidiaries against each other to derive our net exposure. Each of our subsidiaries determines its maximum foreign exchange exposure for both trading and asset and liability management purposes by establishing a limit for this net foreign currency open position. Each Subsidiary Risk Management Committee also establishes VaR limits for the foreign exchange business of its respective subsidiary and exposure limits for the business units of that subsidiary.

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Assets and liabilities denominated in U.S. dollars account for the majority of our foreign currency assets and liabilities. Those denominated in Japanese yen and the euro account for most of the remainder, the majority of which have been swapped into U.S. dollars.

Each of our subsidiaries monitors changes in, and matches of, foreign-currency assets and liabilities in order to reduce exposure to currency fluctuations. Most of our foreign exchange risk arises in connection with the operations of Woori Bank. Our subsidiaries also manage risks relating to exchange rate fluctuations through foreign exchange dealing, including by their overseas branches. However, we conduct foreign exchange dealings primarily on behalf of our customers. Counterparties are restricted to domestic and foreign financial institutions and banks with respect to which our subsidiaries have established a foreign exchange dealing limit. Our subsidiaries deal primarily in the Won/U.S. dollar market and their dealings are subject to what we believe are

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conservative daily maximum and closing limits and stop loss limits. By way of illustration, the following table sets forth information concerning Woori Bank's limits on proprietary foreign exchange dealings as of December 31, 2005:

	Won/U.S. Dollar Dealing		Dealings in other currencies			
	Headquarters		Headquarters		Overseas Branches	
	Total	Individual	Total	Individual	Total	Individual
	(in millions of US\$)					
Open position						
Daily maximum limit	US\$500	US\$150	US\$100	US\$30	US\$50	US\$15
Daily closing limit	100	30	50	10	25	5
Stop loss:						
Daily	1.5	0.3	0.5	0.1	0.25	0.05
Monthly	2	0.5	1.5	0.3	0.75	0.15

The following table shows the non-consolidated net open positions of Woori Bank, Kyongnam Bank and Kwangju Bank at the end of 2003, 2004 and 2005. Positive amounts represent long exposures and negative amounts represent short exposures.

Currency	As of December 31,								
	2003			2004			2005		
	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Bank	Kyongnam Bank	Kwangju Bank
	(in millions of US\$)								
U.S. dollar	US\$ (18.0)	US\$ 0.1	US\$ 0.4	US\$ 20.8	US\$ (6.8)	US\$ 0.6	US\$ 37.1	US\$ 0.6	US\$ 0.1
Japanese yen	28.4	0.1	(0.2)	(3.8)	2.0	0.0	(0.3)	0.4	(0.1)
Euro	0.8	0.1	0.0	1.9	11.2	(0.1)	12.8	(0.7)	0.1
Others	8.4	1.3	1.4	5.9	1.2	0.9	(16.1)	(1.5)	(0.5)
Total	US\$ 19.6	US\$ 1.6	US\$ 1.6	US\$ 24.9	US\$ 7.6	US\$ 1.4	US\$ 65.7	US\$ 1.8	US\$ 0.7

Derivatives-Related Market Risk

The Foreign Exchange Transaction Regulations of Korea provide that a foreign exchange bank (such as Woori Bank) may generally enter into derivatives transactions without restriction so long as those transactions are not linked with credit risks of a party to the transaction or any third party. If they are, the bank must report the transaction to the Bank of Korea.

Most of the derivatives products that our subsidiaries trade are on behalf of their customers or to hedge their own positions. Our derivatives activities include interest rate and cross-currency swaps, foreign exchange forwards, stock index and interest rate futures, forward rate

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agreements and currency and over-the-counter equity options. The following table shows our gross notional amounts with respect to derivatives relating to foreign exchange, interest rate and equity as of December 31, 2003, 2004 and 2005.

	As of December 31,		
	2003	2004	2005
	(in billions of Won)		
Foreign exchange	(Won) 18,571	(Won) 29,286	(Won) 35,788
Interest rate	8,874	14,853	24,714
Equity	805	6,212	8,435
Others	0	0	63
Total	(Won) 28,250	(Won) 50,352	(Won) 69,000

* including hedge accounting

Table of Contents***Asset and Liability Management***

Our principal market risk with respect to managing our assets and liabilities is interest rate risk. Interest rate risk arises due to mismatches in the maturities or re-pricing periods of rate-sensitive assets and liabilities, such as loans and deposits. Any imbalance of the maturity of our interest rate-sensitive assets and liabilities and the gap resulting from that imbalance may cause net interest income to be affected by changes in the prevailing level of interest rates. Woori Bank has developed a system to manage asset and liability risks relating to foreign currency-denominated assets and liabilities. Our principal asset and liability management objectives are to generate stable net interest revenues and protect our asset value against interest rate fluctuations.

Each of our commercial banking subsidiaries uses a standardized asset and liability management system for its Won-denominated assets and liabilities which was in place by the end of 2003. In addition, Woori Bank's system also allows it to manage its foreign currency-denominated assets and liabilities, as well as the assets and liabilities in its trust accounts. We have completed implementation of these aspects of the asset and liability management system on a group-wide basis with respect to Won-denominated assets and liabilities and plan to implement a similar system with respect to foreign currency-denominated assets and liabilities in 2006. This new system will use roll-over modeling to mitigate the difficulty of predicting maturity with respect to customers' purchases and cash advances and to calculate actual cash flow of its customers based on pre-payment, extension of payments, delinquencies, bankruptcies and recoveries.

Interest Rate Risk

We manage interest rate risk based on rational interest rate forecasts, using gap analysis to measure the difference between interest-sensitive assets and interest-sensitive liabilities, using simulations to calculate the effect of changing interest rates on income. Since Korea does not currently have a well-established derivatives market, we principally manage this risk by managing maturity and duration gaps between our interest-earning assets and interest-bearing liabilities.

We measure interest rate risk for Won and, in the case of Woori Bank, foreign currency assets and liabilities in our bank accounts (including derivatives), and assets and liabilities in our principal guaranteed trust accounts. Most of our interest-earning assets and interest-bearing liabilities are denominated in Won and our foreign currency-denominated assets and liabilities are mostly denominated in U.S. dollars. We believe, however, that our interest rate sensitivity is limited with respect to our Won-denominated assets. Deposits in Won generally bear fixed rates of interest for fixed time periods (other than deposits payable on demand which constituted approximately 43.6% of our total deposits in Won as of December 31, 2005). We generally adjust the interest rates on these deposits when they are rolled over. In addition, as of December 31, 2005, 91.4% of those deposits had current maturities of one year or less. As of December 31, 2005, approximately 73.4% of our Won-denominated loans bore floating rates of interest, and 66.7% of those loans had current maturities of one year or less.

Interest rate gap analysis measures expected changes in net interest revenues by calculating the difference in the amounts of interest-earning assets and interest-bearing liabilities at each maturity and interest resetting date. Woori Bank performs interest rate gap analysis for Won and foreign currency-denominated assets and trust assets, and Kyongnam Bank and Kwangju Bank perform interest rate gap analysis for Won-denominated assets, on a monthly basis. Our subsidiaries report these results to the Group Risk Management Committee on a quarterly basis.

Interest Rate Gap Analysis. For interest rate gap analysis we use or assume the following maturities for different assets and liabilities:

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With respect to maturities of assets, for prime rate-linked loans, we apply the actual maturities of each loan; furthermore, we assume the reserves with the Bank of Korea and loans and securities classified as substandard or below to have remaining maturities of over three years.

With respect to maturities of liabilities, for demand deposits with no fixed maturities held by the banks, a portion of the demand deposits are recognized to have maturities of less than three months as calculated in accordance with Financial Supervisory Commission guidelines.

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From July 2004, our Group Risk Management Committee established the interest rate risk limit for each of our subsidiaries by directing that the VaR for each subsidiary should be within 5% of the estimated net interest income of such subsidiary for a one-year period. We calculate VaR through our group-wide, standardized asset and liability management system, which uses a Stochastic Simulation to simulate the net interest income for a one-year period at a 99% confidence level.

The following tables show, for each of Woori Bank, Kyongnam Bank and Kwangju Bank on a non-consolidated basis pursuant to the guidelines of the Financial Supervisory Service, the interest rate gap for Won-denominated accounts and foreign currency-denominated accounts as of December 31, 2005:

Woori Bank

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in billions of Won)						
Won-denominated accounts:						
Interest-earning assets						
Free interest rate	(Won) 698	(Won) 451	(Won) 2,186	(Won) 1,276	(Won) 3,145	(Won) 7,756
Market interest rate	69,299	8,025	6,052	6,223	2,165	91,764
Interest rate pegged to customer deposit	450	209	290	104	51	1,104
Total	(Won) 70,447	(Won) 8,685	(Won) 8,528	(Won) 7,603	(Won) 5,361	(Won) 100,624
Interest-earning liabilities						
Free interest rate	(Won) 7,139	(Won) 968	(Won) 1,667	(Won) 14,503	(Won) 2,094	(Won) 26,371
Market interest rate	34,351	10,218	11,021	5,912	5,274	66,776
Total	(Won) 41,490	(Won) 11,186	(Won) 12,688	(Won) 20,415	(Won) 7,368	(Won) 93,147
Sensitivity gap	28,957	(2,501)	(4,160)	(12,812)	(2,007)	7,477
Cumulative gap	28,957	26,456	22,296	9,484	7,477	
% of total assets ⁽¹⁾	25.45%	(2.20)%	(3.66)%	(11.26)%	(1.76)%	
Total assets in (Won)						(Won) 113,769

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in millions of US\$)						
Foreign currency-denominated accounts:						
Interest-earning assets						
Free interest rate	US\$ 50	US\$ 9	US\$ 4	US\$ 20	US\$ 9	US\$ 92
Market interest rate	8,661	1,477	319	128	465	11,050

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Interest rate pegged to customer deposit		1	0	0	0	0	1
Total	US\$	8,712	US\$ 1,486	US\$ 323	US\$ 148	US\$ 474	US\$ 11,143
Interest-earning liabilities							
Free interest rate	US\$	46	US\$ 9	US\$ 1	US\$ 1	US\$ 3	US\$ 60
Market interest rate		5,025	1,826	1,117	1,131	1,196	10,295
Total	US\$	3,641	US\$ (349)	US\$ (795)	US\$ (984)	US\$ (725)	US\$ 788
Sensitivity gap		3,641	(349)	(795)	(984)	(725)	788
Cumulative gap		3,641	3,292	2,497	1,513	788	
% of total assets ⁽¹⁾		3.20%	(0.31)%	(0.70)%	(0.86)%	(0.64)%	
Total assets in US\$							US\$ 13,252

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Kyongnam Bank

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in billions of Won)						
Won-denominated accounts:						
Interest-earning assets						
Free interest rate	(Won) 622	(Won) 396	(Won) 516	(Won) 470	(Won) 1,002	(Won) 3,007
Market interest rate	5,412	448	532	1,154	1,387	8,933
Interest rate pegged to customer deposit	29	15	17	7	1	69
Total	(Won) 6,063	(Won) 860	(Won) 1,065	(Won) 1,632	(Won) 2,390	(Won) 12,010
Interest-earning liabilities						
Free interest rate	(Won) 2,376	(Won) 1,124	(Won) 1,821	(Won) 478	(Won) 2,021	(Won) 7,818
Market interest rate	1,557	651	373	240	703	3,525
Total	(Won) 3,933	(Won) 1,774	(Won) 2,194	(Won) 718	(Won) 2,724	(Won) 11,343
Sensitivity gap	2,130	(914)	(1,129)	914	(334)	667
Cumulative gap	2,130	1,216	87	1,001	(334)	
% of total assets ⁽¹⁾	15.70%	8.96%	0.64%	7.38%	(2.46)%	
Total assets in (Won)						(Won) 13,565

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in billions of US\$)						
Foreign currency-accounts:						
Interest-earning assets						
Free interest rate	US\$ 0.17	US\$ 0.06	US\$ 0.11	US\$ 0.03	US\$ 0.01	US\$ 0.37
Market interest rate	0.05	0.01	0.00	0.00	0.00	0.06
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	US\$ 0.22	US\$ 0.06	US\$ 0.11	US\$ 0.03	US\$ 0.01	US\$ 0.42
Interest-earning liabilities						
Free interest rate	US\$ 0.27	US\$ 0.11	US\$ 0.00	US\$ 0.00	US\$ 0.00	US\$ 0.38
Market interest rate	0.01	0.00	0.00	0.00	0.00	0.01
Total	US\$ 0.28	US\$ 0.11	US\$ 0.00	US\$ 0.00	US\$ 0.00	US\$ 0.38
Sensitivity gap	(0.06)	(0.05)	0.10	0.03	0.01	0.05
Cumulative gap	(0.06)	(0.10)	0.00	0.04	0.01	
% of total assets ⁽¹⁾	(12.34)%	(22.63)%	0.34%	7.87%	2.40%	

Total assets in US\$

US\$ 0.45

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Kwangju Bank

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in billions of Won)						
Won-denominated accounts:						
Interest-earning assets						
Free interest rate	(Won) 383	(Won) 185	(Won) 242	(Won) 379	(Won) 386	(Won) 1,575
Market interest rate	5,649	1,053	554	911	424	8,591
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	(Won) 6,032	(Won) 1,238	(Won) 796	(Won) 1,291	(Won) 809	(Won) 10,166
Interest-earning liabilities						
Free interest rate	(Won) 2,763	(Won) 1,074	(Won) 1,363	(Won) 739	(Won) 2,106	(Won) 8,046
Market interest rate	868	462	381	6	347	2,063
Total	(Won) 3,631	(Won) 1,537	(Won) 1,743	(Won) 744	(Won) 2,453	(Won) 10,109
Sensitivity gap	2,401	(299)	(947)	546	(1,644)	57
Cumulative gap	2,401	2,102	1,154	1,700	57	
% of total assets ⁽¹⁾	21.41%	(18.75)%	(10.30)%	15.17%	(0.51)%	
Total assets in (Won)						(Won) 11,212

As of December 31, 2005

	<u>0-3 Months</u>	<u>3-6 Months</u>	<u>6-12 Months</u>	<u>1-3 Years</u>	<u>Over 3 Years</u>	<u>Total</u>
(in millions of US\$)						
Foreign currency-accounts:						
Interest-earning assets						
Free interest rate	US\$ 61	US\$ 94	US\$ 99	US\$ 99	US\$ 93	US\$ 446
Market interest rate	95	214	406	414	415	1,544
Interest rate pegged to customer deposit	0	0	0	0	0	0
Total	US\$ 156	US\$ 308	US\$ 505	US\$ 513	US\$ 508	US\$ 1,990
Interest-earning liabilities						
Free interest rate	US\$ 44	US\$ 63	US\$ 63	US\$ 63	US\$ 63	US\$ 296
Market interest rate	80	140	293	455	501	1,469
Total	US\$ 124	US\$ 203	US\$ 356	US\$ 518	US\$ 564	US\$ 1,765
Sensitivity gap	32	105	149	(5)	(56)	225
Cumulative gap	32	137	286	281	225	
% of total assets ⁽¹⁾	1.6%	6.8%	14.37%	(14.12)%	(11.30)%	

Total assets in US\$

US\$ 1,990

(1) Represents the cumulative gap as a percentage of total assets.

Duration Gap Analysis. Each of Woori Bank, Kyongnam Bank and Kwangju Bank also performs a duration gap analysis to measure and manage its interest rate risk. Duration gap analysis is a more long-term risk indicator than interest rate gap analysis, as interest rate gap analysis focuses only on accounting income and not on the market value of the assets and liabilities. We emphasize duration gap analysis because, in the long run, our principal concern with respect to interest rate fluctuations is the net asset value rather than net interest revenue changes.

For duration gap analysis, we use or assume the same maturities for different assets and liabilities that we use or assume for our interest rate gap analysis.

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The following table shows, for Woori Bank, Kyongnam Bank and Kwangju Bank on a combined basis, with respect to Won-denominated assets and liabilities, duration gaps and net asset value changes when interest rate increases by one percentage point as of the specified dates:

Date	Interest- earning asset duration	Interest-bearing liability duration	Total asset duration gap	Net asset value change
	(in years)	(in years)	(in years)	(in billions of Won)
December 31, 2002	0.87	1.00	(0.10)	(Won) 95
June 30, 2003	0.67	0.68	0.03	(33)
December 31, 2003	0.62	0.88	(0.18)	195
June 30, 2004	0.63	0.76	(0.08)	81
December 31, 2004	0.64	0.78	(0.06)	74
June 30, 2005	0.61	0.77	(0.14)	102
December 31, 2005	0.56	0.73	(0.14)	140

We set interest rate risk limits using the historical interest rate volatility and the mean reversion speed of three-month certificates of deposit in Korea. The following table shows our interest rate VaR with respect to our Won-denominated assets and liabilities for each of the quarters since the fourth quarter of 2004:

	Fourth Quarter 2004	First Quarter 2005	Second Quarter 2005	Third Quarter 2005	Fourth Quarter 2005	First Quarter 2006
	(in millions of Won, except percentages)					
Woori Finance Holdings	(Won) 36.8	(Won) 41.0	(Won) 48.3	(Won) 60.9	(Won) 54.4	(Won) 64.1
Woori Bank	31.7	38.4	47.5	53.7	48.7	75.3
Kyongnam Bank	4.9	7.8	7.8	6.3	9.3	12.5
Kwangju Bank	8.4	10.8	12.8	10.9	8.7	15.4
Volatility	0.495%	0.478%	0.449%	0.438%	0.450%	0.449%
Mean reversion	1.456	1.544	0.914	0.980	1.083	0.914

The Group Risk Management Committee reviews gap analysis reports, duration gap analysis reports and interest rate limit compliance reports prepared by our subsidiary risk management units on a quarterly basis.

Foreign Exchange Risk

We manage foreign exchange rate risk arising in connection with the management of our assets and liabilities together with such risks arising from our trading operations. See **Market Risk Management for Trading Activities Foreign Exchange Risk** above.

Liquidity Risk Management

Liquidity risk is the risk of insolvency or loss due to disparity between inflow and outflow of funds such as maturity mismatch, including having to obtain funds at a high price or to dispose of securities at an unfavorable price due to lack of available funds. We manage our liquidity in order to meet our financial liabilities from withdrawals of deposits, redemption of matured debentures and repayments at maturity of borrowed funds. We also require sufficient liquidity to fund loans and extend other forms of credits, as well as to make investments in securities. Each of our Subsidiary Risk Management Committees establishes liquidity policies for its respective subsidiary and monitors liquidity on an on-going basis. Our subsidiaries make constant adjustment to take into account variables affecting their liquidity levels. Our subsidiary risk management units review the uses and sources of funds on a daily basis, taking into consideration the various goals of their respective business units.

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Our liquidity management goal is to be able, even under adverse conditions, to meet all our liability repayments on time and fund all investment opportunities. Since the formation of the holding company structure, neither we nor our subsidiaries have experienced significant liquidity risk.

We maintain diverse sources of liquidity to facilitate flexibility in meeting our funding requirements. We fund our operations principally by accepting deposits from retail and corporate depositors, accessing the call loan market (a short-term market for loans with maturities of less than one month), issuing debentures and borrowing from the Bank of Korea. We use the majority of funds raised by us to extend loans or purchase securities. Generally, deposits are of shorter average maturity than loans or investments.

In managing liquidity risk, each of our subsidiaries currently determines gap limits, implements those limits and monitors maturity gaps using its asset and liability management system. We have established group-wide gap limits for liquidity management purposes since the second half of 2003. Each subsidiary has set a total limit in order to manage liquidity risk. For example, Woori Bank's three-month accumulated gap limits for banking and trust accounts are between -10% and 10%. In the foreign currency account, the limit for a one-week gap has been set as 0% or higher and as -10% or higher for a one-month gap.

Liquidity is maintained by holding sufficient quantities of assets that can be liquidated to meet actual or potential demands for funds from depositors and others. Liquidity is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds we believe we can raise by issuing securities when required. We seek to minimize our liquidity costs by managing our liquidity position on a daily basis and by limiting the amount of cash at any time that is not invested in interest-earning assets or securities.

The Financial Supervisory Commission requires each Korean bank to maintain a Won liquidity ratio of not less than 105% and to make quarterly reports to the Financial Supervisory Commission. The Financial Supervisory Commission defines the Won liquidity ratio as Won-denominated liquid assets (including marketable securities) due within three months divided by Won-denominated liabilities due within three months.

The following table shows the liquidity status and limits for Won accounts of each of our banking subsidiaries on a non-consolidated basis and for Woori Finance Holdings on a combined basis as of December 31, 2005 in accordance with Financial Supervisory Commission regulations:

	3 months or less			
	Woori Finance Holdings	Woori Bank	Kyongnam Bank	Kwangju Bank
	(in billions of Won)			
Assets (A)	(Won) 56,353	(Won) 45,776	(Won) 5,770	(Won) 4,807
Liabilities (B)	46,932	38,476	4,347	4,109
Liquidity gap	9,430	7,300	1,432	698
Liquidity ratio (A/B)	120.07%	118.97%	132.74%	117.00%
Limit	105.00%	105.00%	105.00%	105.00%

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The following table shows the liquidity status on a cumulative basis and limits for foreign currency accounts of each of our banking subsidiaries on a non-consolidated basis and for Woori Finance Holdings on a combined basis as of December 31, 2005 in accordance with Financial Supervisory Commission regulations:

	7 days or less				7 days-1 month				1-3 months			
	Woori Finance Holdings	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Finance Holdings	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Finance Holdings	Woori Bank	Kyongnam Bank	Kwangju Bank
	(in millions of US\$)											
Foreign currency accounts:	US\$ 3,762	US\$ 3,580	US\$ 152	US\$ 30	US\$ 8,098	US\$ 8,011	US\$ 60	US\$ 27	US\$ 14,198	US\$ 13,997	US\$ 102	US\$ 9
Foreign currency facilities	3,077	2,980	86	11	7,404	7,282	73	49	13,212	13,055	93	6
Foreign currency	685	600	66	19	694	729	(13)	(22)	986	942	9	3
Cumulative (A)	685	600	66	19	1,379	1,329	53	(3)	2,365	2,271	62	3
Total (B)	31,310	30,625	529	156	31,310	30,625	529	156	31,310	30,625	529	156
Liquidity ratio (B)	2.19%	1.96%	12%	12.17%	4.40%	2.38%	10%	(1.92)%	110.0 ⁽¹⁾	107.2% ⁽¹⁾	125.0% ⁽¹⁾	125.8%
Limits	0%	0%	0%	0%	(10)%	(10)%	(10)%	(10)%	85%	85%	85%	85%

⁽¹⁾ Liquidity ratios.

Our Subsidiary Risk Management Committees receive reports from our subsidiaries regarding their respective liquidity ratios and liquidity gap ratios on a monthly basis. Based on those reports, each subsidiary's risk management department reports these results to the Group Risk Management Committee on a quarterly basis.

Operational and Business Risk Management

Operational risk is difficult to quantify and subject to different definitions. We define our operational risk as the risk related to the overall management of the group other than credit risk, market risk, interest rate risk and liquidity risk. These include risks arising from system failure, human error or non-adherence to systems and procedures, or from fraud or inadequate internal controls and procedures, resulting in financial loss. Woori Bank successfully established its operational and business risk management system in 2005. We currently expect to complete implementation of these aspects of the operational and business risk management system at Kyongnam Bank, Kwangju Bank, Woori Investment & Securities and Woori Finance Information System by the end of 2006.

To monitor and control operational risks, we maintain a system of comprehensive policies and have put in place a control framework designed to provide a stable and well-managed operational environment throughout our organization. Several bodies are responsible for managing our operational risk, including our Audit Council (which reports to our group-level Audit Committee), our group-level legal and compliance

department and the Subsidiary Risk Management Committees and their respective risk management units. In particular, our group-level Audit Committee monitors our subsidiaries' compliance with our internal policies and guidelines relating to the issuance of credit and ongoing review of a borrower's ability to meet its obligations. We have established group-wide internal guidelines with respect to our subsidiaries' audit reporting requirements. Our subsidiaries review their operations and their level of compliance with our risk management policies and guidelines on annual basis. As part of this process, they report any problems discovered and any remedial actions taken to our group-level Audit Committee. Based on the results of these reports, or on an ad hoc basis in response to any problem or potential problem that it identifies, the Audit Committee may direct a subsidiary to conduct an audit of its

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operations or, if it chooses to do so, conduct its own audit of those operations. The Audit Committee and the Audit Council interact on a regular basis with our legal and compliance department and our risk management department.

We consider legal and business risk as a part of our operational risk. The uncertainty of the enforceability of the obligations of our customers and counterparties, including foreclosure on collateral, creates legal risk. Business risk includes the risk of changes in laws and regulations, which could also adversely affect us. Legal and business risk is higher in new areas of business where the law is often untested in the courts although such risk can also increase in our traditional business to the extent that the legal and regulatory landscape in Korea is changing and many new laws and regulations governing the banking industry remain untested. Our subsidiaries' legal departments seek to minimize legal and business risk by using stringent legal documentation, employing procedures designed to ensure that transactions are properly authorized and consulting legal advisers. Each of our subsidiaries' internal auditors also review loan documentation to ensure that these are correctly drawn up to withstand scrutiny in court should such scrutiny occur.

In connection with our disaster recovery capabilities, we are in the process of meeting the guidelines suggested by the Financial Supervisory Commission. These generally require that generally our disaster and recovery capabilities enable us to recover data and resume operations within three hours with respect to our banking and securities subsidiaries.

The majority of our information technology systems are operated by our subsidiary, Woori Finance Information System. We currently have a mirror site in operation with respect to Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, which backs up transaction information on a real-time basis. We also have a back-up site in operation with respect to these subsidiaries, which backs up transaction information on a daily basis. See Item 3D. Risk Factors Other risks relating to our business We may experience disruptions, delays and other difficulties from our information technology systems.

Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not Applicable

Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

Not Applicable

Item 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

Not Applicable

Item 15. CONTROLS AND PROCEDURES

We have evaluated, with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of December 31, 2005. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures as of December 31, 2005 were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

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As a company with ADSs listed on the New York Stock Exchange, we are required to comply with the Sarbanes-Oxley Act of 2002. Section 404 of the Act and the applicable rules of the U.S. Securities and Exchange Commission require foreign private issuers such as us to assess and report on internal controls over financial reporting on an annual basis, commencing with the fiscal year ending December 31, 2006. We are in the process of evaluating the requirements of Section 404 and are making preparations to comply with such requirements when they become applicable to us.

There has been no change in our internal control over financial reporting during 2005 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16. RESERVED

Item 16A. *Audit Committee Financial Expert*

Our board of directors has determined that we do not have an audit committee financial expert serving on our audit committee as defined by the U.S. Securities and Exchange Commission, as none of our audit committee members have the familiarity with U.S. GAAP required by the U.S. Securities and Exchange Commission, which is the GAAP of the financial statements included in this annual report. Our board believes that the interests of our stockholders can be adequately served for the time being by the current members but intends to add such an expert to the board once a suitable candidate can be identified and recruited.

Item 16B. *Code of Ethics*

We have adopted a code of ethics, as defined in Item 16B of Form 20-F under the Securities Exchange Act of 1934, as amended. Our code of ethics applies to our chief executive officer, and chief financial officer and persons performing similar functions as well as to our non-executive directors and other officers and employees. Our code of ethics is available on our website at <http://www.woorifg.com>. If we amend the provisions of our code of ethics that apply to our chief executive officer and chief financial officer and persons performing similar functions, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

Item 16C. *Principal Accountant Fees and Services*

The following table sets forth the fees billed to us by our independent registered public accountants, Deloitte Anjin LLC, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, "Deloitte"), which includes Deloitte Consulting, during the fiscal years ended December 31, 2004 and 2005:

Year ended December 31,	
2004	2005

	(in millions of Won)	
Audit fees	(Won) 4,178	(Won) 3,949
Audit-related fees	494	109
Tax fees	171	163
All other fees	38	53
Total fees	(Won) 4,881	(Won) 4,274

Audit fees in the above table are the aggregate fees billed or expected to be billed by Deloitte in connection with the audit of our annual financial statements, the review of our interim financial statements, the review of filings with the U.S. Securities and Exchange Commission and the issuance of comfort letters in connection with the issuance of debt securities.

Audit-related fees in the above table are the aggregate fees billed or expected to be billed by Deloitte for agreed upon procedures related to various transactions involving us and our subsidiaries.

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Tax fees in the above table are fees billed or expected to be billed by Deloitte for assistance in the preparation of certain tax returns and other tax advice.

Other fees in the above table are fees billed or expected to be billed by Deloitte primarily related to consulting services provided by Deloitte Consulting to Woori Bank in connection with the business process reengineering of Woori Bank's branch offices.

Audit Committee Pre-Approval Policies and Procedures

Our audit committee does not apply pre-approval policies and procedures for the engagement of our independent registered public accountants for services. Our audit committee expressly approves on a case-by-case basis any engagement of our independent registered public accountants for audit and non-audit services provided to our subsidiaries or to us.

The audit committee is permitted to approve certain fees for audit and non-audit services before the completion of the engagement that are recurring, in the ordinary course of business and otherwise comply with the *de minimis* exception to the applicable rules of the U.S Securities and Exchange Commission. In 2005, no fees were approved pursuant to the *de minimis* exception.

Item 16D. Exemptions from the Listing Standards for Audit Committees

Not Applicable

Item 16E. Purchase of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any affiliated purchaser, as defined in Rule 10b-18(a)(3) of the Exchange Act, purchased any of our equity securities during the period covered by this annual report.

Item 17. FINANCIAL STATEMENTS

Not Applicable

Item 18. FINANCIAL STATEMENTS

Reference is made to Item 19(a) for a list of all financial statements filed as part of this annual report.

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Item 19. EXHIBITS

(a) List of financial statements:

	Page
<u>Audited consolidated financial statements of Woori Finance Holdings and subsidiaries prepared in accordance with U.S. GAAP</u>	
<u>Report of Independent Registered Public Accounting Firm</u>	F-1
<u>Consolidated balance sheets as of December 31, 2003, 2004 and 2005</u>	F-2
<u>Consolidated statements of income (loss) and comprehensive income (loss) for the years ended December 31, 2003, 2004 and 2005</u>	F-4
<u>Consolidated statements of changes in stockholders' equity for the years ended December 31, 2003, 2004 and 2005</u>	F-7
<u>Consolidated statements of cash flows for the years ended December 31, 2003, 2004 and 2005</u>	F-9
<u>Notes to consolidated financial statements</u>	F-11

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(b) Exhibits

Pursuant to the rules and regulations of the U.S. Securities and Exchange Commission, Woori Finance Holdings has filed certain agreements as exhibits to this Annual Report on Form 20-F. These agreements may contain representations and warranties made by the parties. These representations and warranties have been made solely for the benefit of the other party or parties to such agreements and (i) may be intended not as statements of fact, but rather as a way of allocating the risk to one of the parties to such agreements if those statements turn out to be inaccurate, (ii) may have been qualified by disclosures that were made to such other party or parties and that either have been reflected in the company's filings or are not required to be disclosed in those filings, (iii) may apply materiality standards different from what may be viewed as material to investors and (iv) were made only as of the date of such agreements or such other date(s) as may be specified in such agreements and are subject to more recent developments. Accordingly, these representations and warranties may not describe Woori Finance Holdings' actual state of affairs at the date of this annual report.

<u>Number</u>	<u>Description</u>
1.1*	Articles of Incorporation of Woori Finance Holdings (translation in English).
2.1*	Form of Stock Certificate of Woori Finance Holdings - common stock, par value (Won)5,000 per share (translation in English).
2.2**	Form of Deposit Agreement among Woori Finance Holdings, Citibank, N.A., as depositary, and all holders and beneficial owners of American depositary shares evidenced by American depositary receipts, including the form of American depositary receipt.
4.1*	Memorandum of understanding between the KDIC and Woori Finance Holdings dated July 2, 2001, as amended.
4.2*	Memorandum of understanding between the KDIC and Hanvit Bank (since renamed Woori Bank) dated December 30, 2000, as amended.
4.3*	Memorandum of understanding between the KDIC and Kyongnam Bank dated December 30, 2000, as amended.
4.4*	Memorandum of understanding between the KDIC and Kwangju Bank dated December 30, 2000, as amended.
4.5*	Memorandum of understanding between Woori Finance Holdings and Hanvit Bank (since renamed Woori Bank) dated July 12, 2001, as amended.
4.6*	Memorandum of understanding between Woori Finance Holdings and Kyongnam Bank dated July 31, 2001, as amended.
4.7*	Memorandum of understanding between Woori Finance Holdings and Kwangju Bank dated July 31, 2001, as amended.
8.1****	List of subsidiaries of Woori Finance Holdings.
11.1***	Code of Ethics.
12.1	Section 302 certifications.
13.1	Section 906 certifications.

* Incorporated by reference to the exhibits to the Registration Statement on Form 20-F (File No. 001-31811), filed on September 25, 2003

** Incorporated by reference to exhibit (a) to the Registration Statement on Form F-6 (File No. 333-109106), filed on September 25, 2003.

*** Incorporated by reference to exhibits to the Annual Report on Form 20-F (File No. 001-31811), filed on June 30, 2004.

**** Incorporated by reference to Note 35 of the notes to the consolidated financial statements of the registrant included in this Annual Report.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

WOORI FINANCE HOLDINGS Co., LTD.

(Registrant)

/s/ Young-Key Hwang
(Signature)

Young-Key Hwang
Chairman and Chief Executive Officer
(Name/Title)

Date: June 27, 2006

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Woori Finance Holdings Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Woori Finance Holdings Co., Ltd. and subsidiaries (collectively referred to as the Company) as of December 31, 2003, 2004 and 2005, and the related consolidated statements of income (loss) and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended (all expressed in Korean Won). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Woori Finance Holdings Co., Ltd. and subsidiaries as of December 31, 2003, 2004 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Korean Won amounts into United States dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. The translation of the financial statement amounts into United States dollars has been made solely for the convenience of readers in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its accounting policy with respect to cash and cash equivalents in 2005.

/s/ DELOITTE ANJIN LLC

Seoul, Korea

May 12, 2006

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won			U.S. Dollars
	2003	2004	2005	2005
	<i>(in millions, except share data)</i>			<i>(in thousands)</i>
	(Note 1)			
ASSETS				
Cash and cash equivalents	5,399,974	4,315,387	8,280,368	8,198,384
Restricted cash	372,847	387,869	375,667	371,948
Interest bearing deposits in other banks	1,640,210	990,100	1,552,606	1,537,233
Call loans and securities purchased under resale agreements	1,126,988	1,499,041	1,425,644	1,411,529
Trading assets:				
Korea Deposit Insurance Corporation	302,268	216,567	184,262	182,438
Unrelated parties	3,988,546	6,772,814	4,704,940	4,658,356
Available-for-sale securities:				
Korea Deposit Insurance Corporation	2,109,546	2,053,923	1,836,435	1,818,252
Unrelated parties	10,298,343	10,248,470	16,451,536	16,288,650
Held-to-maturity securities (fair value of 10,143,290 million Won in 2003, 8,763,901 million Won in 2004 and 9,613,695 million Won in 2005):				
Korea Deposit Insurance Corporation	6,088,692	4,706,388	1,023,450	1,013,317
Unrelated parties	3,712,841	3,699,872	8,614,354	8,529,063
Other investment assets	792,746	1,138,180	1,397,268	1,383,434
Loans (net of allowance for loan and lease losses of 2,833,675 million Won in 2003, 1,805,593 million Won in 2004 and 1,524,536 million Won in 2005):				
Korea Deposit Insurance Corporation	25,600	25,600	25,600	25,347
Directors	17	49	65	64
Employees	204,861	191,241	191,688	189,790
Unrelated parties	85,356,475	88,488,306	102,413,130	101,399,139
Due from customers on acceptances	420,859	337,599	355,471	351,951
Premises and equipment, net	2,150,895	2,109,280	2,059,776	2,039,382
Accrued interest and dividends receivable	746,765	557,700	702,681	695,724
Assets held for sale		26,015	48,839	48,356
Goodwill	24,571	21,412	47,989	47,513
Other intangible assets, net	167,900	234,383	187,253	185,399
Other assets:				
Korea Deposit Insurance Corporation	502,243	294,039	256,973	254,429
Trust	3,889	3,812	5,993	5,934
Unrelated parties	2,175,771	2,595,712	2,772,713	2,745,260
Total assets	127,612,847	130,913,759	154,914,701	153,380,892

(continued)

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS (CONTINUED)****DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won			U.S. Dollars
	2003	2004	2005	2005
	<i>(in millions, except share data)</i>			<i>(in thousands)</i>
				(Note 1)
LIABILITIES				
Deposits:				
Interest bearing	85,481,655	86,339,328	99,608,926	98,622,699
Non-interest bearing	3,520,977	3,713,752	4,537,989	4,493,059
Call money	412,078	689,390	325,701	322,476
Trading liabilities	473,074	1,628,088	1,339,223	1,325,963
Acceptances outstanding	420,859	337,599	355,471	351,951
Other borrowed funds:				
Trust	1,611,050	826,677	764,478	756,909
Unrelated parties	7,734,160	8,288,082	9,144,898	9,054,354
Secured borrowings	4,321,289	2,352,312	2,556,605	2,531,292
Long-term debt	14,916,813	15,661,605	21,849,694	21,633,361
Accrued interest payable	1,617,963	1,713,276	1,720,562	1,703,527
Other liabilities	3,217,837	2,861,566	4,378,608	4,335,255
Total liabilities	123,727,755	124,411,675	146,582,155	145,130,846
Commitments and contingencies				
(Notes 3, 4, 20, 34 and 36)				
Minority interest	229,138	38,141	11,479	11,365
STOCKHOLDERS EQUITY				
Common stock 5,000 Won par value, authorized 2,400 million shares, 775,504,910 shares issued and outstanding in 2003, 796,455,558 shares issued and 795,993,011 shares outstanding in 2004 and 806,015,340 shares issued and 806,012,790 shares outstanding in 2005				
	3,877,525	3,982,278	4,030,077	3,990,175
Additional paid-in capital	4,645,721	4,987,848	5,000,548	4,951,038
Accumulated deficit	(4,992,691)	(2,734,886)	(1,048,459)	(1,038,077)
Accumulated other comprehensive income, net of tax	125,399	232,580	338,919	335,563
Less: treasury stock, at cost, 462,547 shares in 2004 and 2,550 shares in 2005		(3,877)	(18)	(18)
Total stockholders equity	3,655,954	6,463,943	8,321,067	8,238,681
Total liabilities, minority interest and stockholders equity	127,612,847	130,913,759	154,914,701	153,380,892

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won			U.S. Dollars
	2003	2004	2005	2005
	<i>(in millions, except per share data)</i>			<i>(in thousands, except per share data)</i> (Note 1)
Interest and dividend income				
Loans:				
Korea Deposit Insurance Corporation	191	1,164	1,160	1,148
Directors	1	2	5	5
Employees	8,940	6,082	6,998	6,929
Trust		1		
Unrelated parties	5,812,641	5,667,906	5,718,599	5,661,979
Deposits in other banks	72,942	36,616	45,482	45,031
Trading assets:				
Korea Deposit Insurance Corporation	26,531	14,581	11,154	11,044
Unrelated parties	175,680	147,932	147,160	145,703
Investment securities:				
Korea Deposit Insurance Corporation	620,665	553,644	139,927	138,542
Unrelated parties	757,154	765,408	1,074,359	1,063,721
Call loans and securities purchased under resale agreements	45,206	41,530	63,992	63,358
Total interest and dividend income	7,519,951	7,234,866	7,208,836	7,137,460
Interest expense				
Deposits	2,744,006	2,579,121	2,501,183	2,476,419
Call money	34,909	29,781	28,739	28,454
Other borrowed funds:				
Trust	38,812	39,418	35,597	35,245
Unrelated parties	274,007	203,861	258,246	255,689
Secured borrowings	258,645	125,479	114,344	113,212
Long-term debt	766,626	831,107	789,084	781,271
Total interest expense	4,117,005	3,808,767	3,727,193	3,690,290
Net interest income	3,402,946	3,426,099	3,481,643	3,447,170
Provisions				
Provision for loan and lease losses	2,312,716	651,654	308,499	305,445
Provision (reversal of provision) for credit-related commitments	201,335	42,768	(38,917)	(38,533)
Other provision (reversal of provision)	101,647	(6,456)	16,489	16,327

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Total provisions	2,615,698	687,966	286,071	283,239
Net interest income after provisions for loan and lease losses, credit-related commitments and other	787,248	2,738,133	3,195,572	3,163,931

(continued)

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won			U.S. Dollars
	2003	2004	2005	2005
	<i>(in millions, except per share data)</i>			<i>(in thousands, except per share data)</i> (Note 1)
Non-interest income				
Trust fees, net	45,404	39,508	13,182	13,052
Fees and commission income	1,086,810	1,078,514	1,202,731	1,190,823
Trading revenue, net:				
Korea Deposit Insurance Corporation	641	884	2,283	2,261
Unrelated parties	110,723	434,923	254,016	251,501
Investment securities gain (loss), net:				
Korea Deposit Insurance Corporation	4,551	318	669	662
Unrelated parties	(87,346)	127,623	243,506	241,096
Other non-interest income	274,115	271,187	199,544	197,569
Total non-interest income	1,434,898	1,952,957	1,915,931	1,896,964
Non-interest expenses				
Salaries and employee benefits	865,417	978,385	1,008,619	998,633
Depreciation and amortization	266,124	268,235	237,599	235,247
Other administrative expenses	742,191	778,034	826,750	818,564
Fees and commissions	335,682	242,551	213,839	211,723
Other non-interest expenses	427,018	542,139	646,479	640,077
Total non-interest expenses	2,636,432	2,809,344	2,933,286	2,904,244
Income (loss) before income tax expense (benefit) and minority interest	(414,286)	1,881,746	2,178,217	2,156,651
Income tax expense (benefit)	254,044	(392,155)	365,656	362,034
Minority interest	4,004	1,274	6,666	6,600
Income (loss) before extraordinary item	(672,334)	2,272,627	1,805,895	1,788,017
Extraordinary item, remaining excess of fair value over cost of acquired net assets		62,728		
Net income (loss)	(672,334)	2,335,355	1,805,895	1,788,017
Other comprehensive income, net of tax				
Foreign currency translation adjustments, net of tax	1,911	(17,082)	(3,726)	(3,689)
Net unrealized gains on available-for-sale securities, net of tax	95,323	124,263	110,065	108,975

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Total other comprehensive income, net of tax	97,234	107,181	106,339	105,286
Comprehensive income (loss)	(575,100)	2,442,536	1,912,234	1,893,303

(continued)

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Korean Won			U.S. Dollars
	2003	2004	2005	2005
	<i>(in millions, except per share data)</i>			<i>(in thousands, except per share data)</i> (Note 1)
Earnings per common share				
Basic:				
Income (loss) before extraordinary item	(871)	2,920	2,245	2.22
Extraordinary item		81		
Net income (loss)	(871)	3,001	2,245	2.22
Diluted:				
Income (loss) before extraordinary item	(871)	2,848	2,241	2.22
Extraordinary item		78		
Net income (loss)	(871)	2,926	2,241	2.22

The accompanying notes are an integral part of these consolidated financial statements.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Common stock		Accumulated other comprehensive income, net of tax			Treasury stock	Total stockholders equity
	Shares	Amount	Additional paid-in capital	Accumulated deficit	income, net of tax		
Korean Won (in millions, except share data)							
Balance at January 1, 2003	767,814,797	3,839,074	4,353,233	(4,263,095)	28,165		3,957,377
Issuance of common stock	7,690,113	38,451	(574)				37,877
Capital transactions of affiliates			25,955				25,955
Reduction of deficit equity (Notes 24 and 31)			265,721				265,721
Stock compensation costs			1,386				1,386
Other comprehensive income, net of tax					97,234		97,234
Net loss				(672,334)			(672,334)
Dividends ⁽¹⁾				(57,262)			(57,262)
Balance at December 31, 2003	775,504,910	3,877,525	4,645,721	(4,992,691)	125,399		3,655,954
Issuance of common stock	8,571,262	42,856	13,064				55,920
Exercise of conversion rights during 2004	12,379,386	61,897	6,886				68,783
Capital transactions of affiliates			2,372				2,372
Reduction of deficit equity (Notes 24 and 31)			299,987				299,987
Stock compensation costs			1,100				1,100
Acquisition of treasury stock	(7,298,279)					(61,220)	(61,220)
Reissuance of treasury stock	6,835,732		18,718			57,343	76,061
Other comprehensive income, net of tax					107,181		107,181
Net income				2,335,355			2,335,355
Dividends ⁽¹⁾				(77,550)			(77,550)
Balance at December 31, 2004	795,993,011	3,982,278	4,987,848	(2,734,886)	232,580	(3,877)	6,463,943
Exercise of conversion rights during 2005	9,559,782	47,799	14,337				62,136
Capital transactions of affiliates			(5,595)				(5,595)
Reduction of deficit equity (Notes 24 and 31)			6,580				6,580

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Stock compensation costs			(2,622)			(2,622)
Reissuance of treasury stock	459,997				3,859	3,859
Other comprehensive income, net of tax					106,339	106,339
Net income			1,805,895			1,805,895
Dividends ⁽¹⁾			(119,468)			(119,468)
Balance at December 31, 2005	806,012,790	4,030,077	5,000,548	(1,048,459)	338,919	(18)

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

	Common stock		Accumulated other comprehensive income, net of tax			Treasury stock	Total stockholders equity
	Shares	Amount	Additional paid-in capital	Accumulated deficit	income, net of tax		
U.S. Dollars (in thousands, except share data) (Note 1)							
Balance at December 31, 2004	795,993,011	3,942,849	4,938,464	(2,707,808)	230,277	(3,839)	6,399,943
Exercise of conversion rights during 2005	9,559,782	47,326	14,195				61,521
Capital transactions of affiliates			(5,538)				(5,538)
Reduction of deficit equity (Notes 24 and 31)			6,513				6,513
Stock compensation costs			(2,596)				(2,596)
Reissuance of treasury stock	459,997					3,821	3,821
Other comprehensive income, net of tax					105,286		105,286
Net income				1,788,017			1,788,017
Dividends ⁽¹⁾				(118,286)			(118,286)
Balance at December 31, 2005	806,012,790	3,990,175	4,951,038	(1,038,077)	335,563	(18)	8,238,681

⁽¹⁾ Dividends paid based on retained earnings in accordance with accounting principles generally accepted in the Republic of Korea (Korean GAAP)

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won		U.S. Dollars	
	2003	2004	2005	2005
	(As revised)	(As revised)		
	<i>(in millions)</i>		<i>(in thousands)</i>	
			<i>(Note 1)</i>	
Cash flows from operating activities:				
Net income (loss)	(672,334)	2,335,355	1,805,895	1,788,017
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Provision for loan and lease losses	2,312,716	651,654	308,499	305,445
Provision (reversal of provision) for credit-related commitments	201,335	42,768	(38,917)	(38,533)
Other provision (reversal of provision)	101,647	(6,456)	16,489	16,327
Depreciation and amortization	266,124	268,235	237,599	235,247
Net loss (gain) on derivatives	(148,336)	76,625	(149,516)	(148,036)
Loss (gain) on redemption of trading securities	(9,245)	118,118	128	127
Net gain on disposal of trading securities	(82,199)	(1,369,099)	(91,855)	(90,946)
Net loss (gain) on valuation of trading securities	128,416	1,610,163	(15,056)	(14,907)
Net gain on redemption of investment securities	(47,354)	(77,098)	(33,299)	(32,969)
Net gain on disposal of investment securities	(42,485)	(156,294)	(107,433)	(106,369)
Net gain on equity method investments	(36,737)	(24,585)	(158,721)	(157,150)
Impairment loss on investment securities	209,370	130,036	55,278	54,730
Net loss (gain) on sale of loans	(39,794)	11,598	44,823	44,379
Net loss (gain) on disposal of premises and equipment	(16,518)	(13,135)	1,925	1,906
Provision for accrued severance benefits	94,661	110,699	120,799	119,603
Provision for deferred income tax	230,054	(521,782)	37,678	37,304
Extraordinary gain		(62,728)		
Net changes in:				
Trading assets and liabilities	661,267	(2,645,641)	2,054,589	2,034,247
Accrued interest and dividends receivable	(64,055)	189,065	(147,581)	(146,120)
Other assets	1,161,622	(116,447)	(252,034)	(249,538)
Accrued interest payable	82,003	95,313	14,381	14,239
Other liabilities	(494,290)	(196,469)	1,433,197	1,419,007
Origination of loans held for sale		(230,064)	(435,575)	(431,262)
Proceeds from sale of loans held for sale		204,049	417,812	413,675
Net cash provided by operating activities	3,795,868	423,880	5,119,105	5,068,423
Cash flows from investing activities:				
Net changes in restricted cash	406,466	(15,022)	12,202	12,080
Net changes in interest-bearing deposits in other banks	185,960	646,233	(815,726)	(807,650)
Net changes in call loans and securities purchased under resale agreements	(497,642)	(372,053)	73,397	72,670
Net changes in loans	(11,479,038)	(3,884,541)	(14,306,603)	(14,164,953)
Proceeds from sales of available-for-sale securities:				
Korea Deposit Insurance Corporation	650,461	20,879	49,644	49,152
Unrelated parties	6,553,348	2,130,696	2,655,509	2,629,217
Proceeds from redemption and maturities of available-for-sale securities:				

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Korea Deposit Insurance Corporation	650,461	80,362	505,560	500,554
Unrelated parties	14,102,871	6,522,987	10,209,106	10,108,026
Purchases of available-for-sale securities:				
Korea Deposit Insurance Corporation	(304,517)	(82,861)	(297,112)	(294,170)
Unrelated parties	(25,056,005)	(6,693,129)	(18,961,625)	(18,773,886)
Proceeds from maturities, prepayments and calls of held-to-maturity securities:				
Korea Deposit Insurance Corporation	30,638	1,856,685	2,003,333	1,983,498
Unrelated parties	3,181,087	1,466,059	6,603,337	6,537,957
Purchases of held-to-maturity securities:				
Korea Deposit Insurance Corporation	(87,917)	(337,234)	(264,572)	(261,952)
Unrelated parties	(2,966,085)	(1,723,726)	(9,556,899)	(9,462,276)
Net changes in other investments	(41,689)	(898,851)	50,808	50,305
Purchases of premises and equipment	(246,272)	(294,024)	(155,488)	(153,949)
Proceeds from sales of premises and equipment	182,685	184,645	16,343	16,181
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash used in investing activities	(14,735,188)	(1,392,895)	(22,178,786)	(21,959,196)
	<hr/>	<hr/>	<hr/>	<hr/>

(continued)

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

	Korean Won		U.S. Dollars	
	2003	2004	2005	2005
	(As revised)	(As revised)		
	<i>(in millions)</i>		<i>(in thousands)</i>	
			<i>(Note 1)</i>	
Cash flows from financing activities:				
Net changes in non-interest-bearing deposits	113,362	192,775	824,237	816,077
Net changes in interest-bearing deposits	10,291,157	857,673	13,434,113	13,301,101
Net changes in call money	(392,259)	277,312	(363,689)	(360,088)
Proceeds from secured borrowings	2,491,234	692,496	1,934,681	1,915,526
Payments on secured borrowings	(2,925,469)	(2,661,473)	(1,730,387)	(1,713,254)
Net changes in other borrowed funds	(1,980,305)	(230,451)	800,894	792,964
Proceeds from long-term debt	5,659,213	4,325,113	6,496,326	6,432,006
Payments on long-term debt	(2,047,035)	(3,506,307)	(255,904)	(253,370)
Acquisition of treasury stock		(61,220)		
Proceeds from reissuance of treasury stock		76,061	3,859	3,821
Proceeds from common stock issuance	37,877			
Cash dividends paid	(57,262)	(77,551)	(119,468)	(118,286)
	<u>11,190,513</u>	<u>(115,572)</u>	<u>21,024,662</u>	<u>20,816,497</u>
Net cash provided by (used in) financing activities				
Net increase (decrease) in cash and cash equivalents	251,193	(1,084,587)	3,964,981	3,925,724
Cash and cash equivalents, beginning of year	5,148,781	5,399,974	4,315,387	4,272,660
	<u>5,399,974</u>	<u>4,315,387</u>	<u>8,280,368</u>	<u>8,198,384</u>
Cash and cash equivalents, end of year				
Supplemental disclosure of cash flow information:				
Cash paid during the year for interest	4,035,004	3,713,454	3,712,811	3,676,050
Cash paid during the year for income tax	26,599	129,257	327,373	324,132
Supplemental schedule of non cash investing and financing activities:				
Acquisitions (Note 3):				
Fair value of net assets acquired	16,753		50,225	49,728
Goodwill	24,571		25,803	25,548
Less: Gain recognized			(40)	(40)
	<u>41,324</u>	<u></u>	<u>75,988</u>	<u>75,236</u>
Cash paid	41,324		75,988	75,236
Less: Cash acquired	(14,371)		(1)	(1)
	<u>26,953</u>	<u></u>	<u>75,987</u>	<u>75,235</u>
Net cash paid for acquisition				
Loans repurchased from Korea Asset Management Corporation in exchange for held-to-maturity and available-for-sale securities	90,847	44,012		
Transfer of loans into securities and other investments (Note 12)	283,055	99,198	553	548
Increase (decrease) in cumulative translation adjustments, net of tax	1,911	(17,082)	(3,726)	(3,689)

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Increase in unrealized gains on available-for-sale securities, net of tax	95,323	124,263	110,065	108,975
Conversion of convertible debentures		68,783	62,136	61,521
Assets obtained by entering into a capital lease	8,958	47,428	1,023	1,013
Shares issued to acquire minority interest in Woori Securities Co., Ltd.		55,920		
Disposal of Woori Securities Co., Ltd.			182,265	180,460

The accompanying notes are an integral part of these consolidated financial statements.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

1. General Information and Summary of Significant Accounting Policies

Woori Finance Holdings Co., Ltd. (the Holding Company) was incorporated under the laws of the Republic of Korea on March 27, 2001, and commenced operations on April 2, 2001, under the Financial Holding Company Act. The Holding Company was established primarily to manage certain banks and other companies acquired by the Korea Deposit Insurance Corporation (KDIC) in connection with the 1997 Asian Financial Crisis. As of December 31, 2005, the Holding Company controls the following entities: three commercial banks, which include Woori Bank (formerly known as Hanvit Bank), Kyongnam Bank and Kwangju Bank (collectively referred to as the Bank Subsidiaries); Woori Finance Information System Co., Ltd.; Woori F&I Co., Ltd.; Woori Asset Management Co., Ltd. (formerly known as LG Investment Trust Management Co., Ltd.); Woori Private Equity Co., Ltd., and Woori Third Asset Securitization Specialty Co., Ltd.; all collectively referred to as Woori Subsidiaries. Several of the Woori Subsidiaries also have other subsidiaries of which the Holding Company is now the ultimate financial holding company. The Holding Company, Woori Subsidiaries and their subsidiaries, consolidated trust accounts (see Note 41), and certain other consolidated variable interest entities (VIEs) (see Note 11) are collectively referred to as the Company.

On September 30, 1998, KDIC purchased 95.04% of the outstanding shares of the Commercial Bank of Korea (renamed Hanvit Bank) and 95.64% of the outstanding shares of Hanil Bank (merged into the Commercial Bank of Korea). On December 29, 2000, Woori Bank (formerly Hanvit Bank), Kyongnam Bank, Kwangju Bank and Peace Bank received an order of elimination of all existing stockholders from the Financial Supervisory Commission (FSC) pursuant to the Law on Improvement of Structure of Financial Industry of the Republic of Korea and, accordingly, reduced their existing common stocks to zero without payment of consideration, except for the consideration paid to certain shareholders who exercised dissenters' rights against the capital reduction, effectively eliminating all existing shareholders. On December 29, 2000, KDIC purchased 100% of the newly issued shares of Woori Bank, Peace Bank, Kwangju Bank and Kyongnam Bank. KDIC purchased these shares by issuing KDIC bonds to the respective banks.

On November 3, 2000, KDIC established Woori Investment Bank to manage the operations of four bankrupt merchant banking corporations. On July 31, 2003, Woori Investment Bank was merged into Woori Bank and, as a result, Woori Bank assumed substantially all of the assets and liabilities of Woori Investment Bank.

On December 31, 2001, the commercial banking business of Peace Bank was merged into Woori Bank, and Peace Bank acquired the credit card businesses of Woori Bank and Kwangju Bank on January 31, 2002 and February 28, 2003, respectively, to become Woori Credit Card Co., Ltd., a principal credit card subsidiary of the Holding Company. On March 31, 2004, Woori Credit Card Co., Ltd. was merged into Woori Bank (see Note 3).

Upon the legal establishment of the Holding Company on March 27, 2001, KDIC transferred all its shares of the five subsidiaries to the Holding Company in exchange for the shares of the Holding Company and KDIC became the sole owner of the Holding Company. On June 24, 2002, the Holding Company listed its shares on the Korea Stock Exchange through a public offering, which included 36 million new shares and 54 million

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previously issued shares. As a result of the public offering, exercise of stock warrants, conversion of convertible debentures and sale of a portion of common stock held by KDIC, the ownership percentage of KDIC as of December 31, 2005 is 77.97%, not considering treasury stock.

The Company registered with the Securities and Exchange Commission (SEC) in the United States of America and listed its American Depositary Shares on the New York Stock Exchange on September 29, 2003.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Risks and uncertainties

Until 2004, the economy of the Republic of Korea experienced contractions in the private banking industry, which was triggered by an oversupply of credit that led to poor asset quality, increases in the level of bankruptcies, high level of written-off loans, and higher levels of delinquencies related to consumer borrowings and small and medium enterprise borrowings. In addition, credit card companies including the Company's credit card operation experienced serious liquidity issues and suffered substantial losses.

Although economic conditions in the Republic of Korea have improved and some of the trends and conditions noted above may have reversed to a certain extent, the Company and its customers may continue to be affected for the foreseeable future by certain adverse economic conditions in the Republic of Korea and the countries which the trade of the Republic of Korea heavily depends on. The accompanying consolidated financial statements reflect management's assessment of the impact to date of the economic environment on the financial position and results of operations of the Company. If these conditions have a more adverse effect on the Company than management currently anticipates, adjustments to the carrying amount of its loans and investments would be required, and such adjustments could be material to the consolidated financial statements.

Basis of presentation and consolidation

The Company maintains its 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 the Company's books, to present these statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

The consolidated financial statements of the Company include the accounts of the Holding Company and its predecessor banks acquired by KDIC. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through majority ownership of voting stock. The consolidated financial statements also include the accounts of the VIEs for which the Company has been determined to be the primary beneficiary under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised 2003),

Consolidation of Variable Interest Entities (FIN No. 46R) (see Note 11), including 11 special purpose entities (SPEs) (see Note 39) and the guaranteed trust accounts (see Note 41). All significant intercompany transactions and balances have been eliminated in the consolidation. The Company accounts for investments in companies in which it owns a voting or economic interest of 20 to 50 percent and for which it has significant influence over operating and financial decisions using the equity method and these investments are reported in other investment assets. The Company's equity interest in the earnings of the equity method investees and gains and losses realized on disposition of investments are reported in Investment securities gain (loss), net.

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Unless otherwise stated herein, all references to 2003, 2004, and 2005 refer to the Company's fiscal periods ended on the dates, as the context requires, December 31, 2003, December 31, 2004, and December 31, 2005, respectively.

In 2005, the Company changed its accounting policy with respect to the composition of cash and cash equivalents to include reserve deposits with the Bank of Korea (BOK) and certain foreign banks (reserve deposits). Such balances were previously reported as Restricted cash. In the accompanying consolidated balance sheets as of December 31, 2003 and 2004, the Company reclassified 2,849,436 million Won and 2,004,037 million Won, respectively, of reserve deposits from Restricted cash to Cash and cash equivalents to be consistent with the Company's 2005 presentation. As a result of these reclassifications, cash flows from operating activities increased by 552,841 million Won in 2003 and decreased by 845,399 million Won in 2004, as compared to the amounts previously reported.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Certain other reclassifications have been made to previously reported amounts to conform to the current presentation. The changes in certain other restricted cash items have been reclassified from operating activities to investing activities. As a result of these reclassifications, cash flows from operating activities decreased by 406,466 million Won (with a corresponding increase in cash flows from investing activities) in 2003 and increased by 15,022 million Won (with a corresponding decrease in cash flows from investing activities) in 2004, as compared to the amounts previously reported.

Reclassifications were also made to previously reported Net changes in other assets in the consolidated statements of cash flows for the years ended December 31, 2003 and 2004 to present Provision for deferred income tax, Origination of loans held for sale and Proceeds from sale of loans held for sale as separate line items. Such reclassifications did not have any impact on previously reported Net income (loss) or Earnings per common share for the years ended December 31, 2003 and 2004.

Purchase accounting and deficit equity

The purchase of a controlling interest in the banks described above constituted a significant event that warranted a revaluation of the assets and liabilities of the acquired banks. In valuing the assets and liabilities of the acquired banks, the measurement guidelines of Accounting Principles Board (APB) Opinion No. 16, Business Combinations were followed, including recognizing the fair value of those identifiable intangibles that could be reliably measured, such as core deposit intangible assets. The amount resulting from liabilities in excess of identified assets of the acquired banks has been classified as deficit equity in accordance with Emerging Issue Task Force (EITF) Issue No. 85-41, Accounting for Savings and Loan Associations under FSLIC Management Consignment Program. No goodwill was recorded in connection with these transactions. The values assigned represent the new cost basis of the assets. Deficit equity is presented as a reduction of Additional paid-in capital (APIC).

Goodwill and other intangible assets

Net assets of companies acquired in purchase transactions related to entities other than the banks described above are recorded at fair value at the date of acquisition, as such, the historical cost basis of individual assets and liabilities are adjusted to reflect their fair value. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangibles, goodwill is not amortized but is reviewed for potential impairment on at least an annual basis at the reporting unit level or, more frequently, if events and circumstances indicate a possible impairment.

Other identifiable intangible assets, which are recorded at fair value at the date of acquisition, consist primarily of core deposit intangible assets. Core deposit intangible assets reflect the estimated fair value of the acquired demand deposits and savings accounts which the Company expects to maintain for an extended period of time because of the generally stable customer relationships. The core deposit intangible assets are amortized over their estimated useful life in proportion to the estimated run-off of depositors on an accelerated basis. The estimated periods to be benefited by the core deposit intangible assets range from 5 to 10 years. The weighted-average amortization period for the core deposit intangible assets as of December 31, 2005 was approximately 8 years. The fair value of these assets was based principally upon the estimates of the funding benefits that these deposits provide relative to our alternative funding sources and the projected run-off of the related customer accounts. Other identifiable intangible assets, other than core deposit intangible assets, are amortized over the estimated periods to be benefited, using the straight-line method. The Company has no intangible asset with an indefinite useful life.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

The goodwill impairment test is performed in two phases. The first step of the goodwill impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired; however, if the carrying amount of the reporting unit exceeds its fair value, an additional procedure must be performed. That additional procedure compares the implied fair value of the reporting unit's goodwill (as defined in SFAS No. 142) with the carrying amount of that goodwill. An impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. In 2003 and 2004, no such impairment charges were recorded. However, in 2005, 2,050 million Won of impairment loss on goodwill was recorded (see Notes 3 and 15). Other intangible assets which have finite useful lives are evaluated for impairment if events and circumstances indicate a possible impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. Such evaluation of other intangible assets is based on undiscounted cash flow projections.

Special purpose entities and variable interest entities (VIEs)

SPEs are broadly defined as legal entities structured for a particular purpose. The Company uses SPEs in various legal forms to conduct normal business activities. SPEs that meet the criteria for a Qualifying Special Purpose Entity (QSPE), as defined in SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, are not required to be consolidated. The Company reviews SPEs that are not QSPEs for consolidation in accordance with FIN No. 46R.

FIN No. 46R was released by the FASB in December 2003 to revise FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (FIN No. 46), which was issued on January 17, 2003. The underlying principle behind the interpretation is that if a business enterprise is a primary beneficiary of an entity, which is defined in the interpretation as a VIE, the assets, liabilities and results of the activities of the VIE should be included in the consolidated financial statements with those of the business enterprise. The primary beneficiary is subject to a majority of the entity's expected loss, is entitled to receive a majority of the entity's expected residual returns, or both. The interpretation also explains how to identify VIEs and how an enterprise should assess its interest in an entity when deciding whether or not it is a primary beneficiary. The Company immediately implemented FIN No. 46 or FIN No. 46R for VIEs created after January 31, 2003 in 2003 and FIN No. 46R for VIEs created prior to February 1, 2003 in 2004.

In general, a VIE is a SPE formed as a corporation, partnership, limited liability corporation, or any other legal structure used to conduct activities or hold assets that either:

Does not have equity investors with voting rights that can directly or indirectly make decisions about the entity's activities through those voting rights or similar rights; or

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Has equity investors that do not provide enough cash or other financial resources for the entity to support its activities.

A VIE often holds financial assets, including loans or receivables, real estate or other property. The Company consolidates a VIE if the Company is considered to be the primary beneficiary. Upon consolidation of a VIE, the Company generally records all of the VIE's assets, liabilities and noncontrolling interests at fair value, with future changes based upon consolidation accounting principles. Certain VIEs established by the Company prior to February 1, 2003, consisting of SPEs and guaranteed trust accounts, have been consolidated from the date of their establishments and remained consolidated upon the initial application of FIN No. 46R in 2004 (see Notes 39 and 41). The Company was deemed the primary beneficiary and consolidated certain other VIEs

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

created before February 1, 2003, other than the aforementioned consolidated SPEs and guaranteed trust accounts, in which the Company obtained a majority of interests in the ordinary course of its business, upon the initial application of FIN No. 46R in 2004. These VIEs are established by third parties other than the Company for efficient investment management.

The Company, in the ordinary course of its business, has involvement in certain VIEs through various types of interests including investments in subordinated debt or limited partnerships, the right to receive fees for acting as an asset manager or a business trustee, and the right to receive fees for providing liquidity facilities. Management of the Company believes that these VIEs are not required to be consolidated because the Company is not considered to be the primary beneficiary. These VIEs are established by clients to access funding from the commercial paper market or the corporate debt market by transferring assets to the VIEs. The transactions with these entities are conducted at arm's length. The Company records and reports these transactions in accordance with their substance similar to any other third party transactions. See Note 11 for more information about VIEs in which the Company holds a significant interest but which are not required to be consolidated.

Use of estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, other-than-temporary impairment for available-for-sale securities, held-to-maturity securities and other investment assets, and valuation of financial instruments, deferred tax assets and trading activities such as trading assets and liabilities including trading derivatives, and hedging derivatives.

Cash and cash equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents are comprised of cash on hand, cash items in the process of collection and amounts due from banks and other financial institutions. All such amounts have an original maturity of three months or less at the time of purchase. Cash and cash equivalents also include reserve deposits which consist mainly of deposits with the BOK, which is the central bank in the Republic of Korea.

Under the Bank of Korea Act, Korean banks are required to maintain certain minimum reserves on deposit with the BOK on an average balance basis for a certain period of time based on the average balance of deposits and certain other factors. There are similar reserve deposit

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requirements for foreign subsidiaries and branches engaged in banking businesses in foreign countries. As of December 31, 2003, 2004 and 2005, the reserve funds maintained by the Company, which were included in Cash and cash equivalents were 2,849,436 million Won, 2,004,037 million Won and 4,275,543 million Won, respectively.

Restricted cash

Restricted cash is cash upon which withdrawal restrictions are imposed primarily due to banking regulations and pledges for certain contracts. Restricted cash consists of funds deposited primarily for certain contracts such as derivatives, borrowings and severance benefits payments for employees.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Trading assets and liabilities, including derivatives

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. The Company recognizes changes in the fair value of trading positions as they occur in Trading revenue, net. Trading assets and liabilities also include derivatives and foreign exchange spot contracts used for trading purposes that do not qualify for hedge accounting, which the Company carries at fair value. The Company enters into these trading derivatives and foreign exchange spot contracts to meet the financing needs of its customers in the normal course of business. The Company also uses such trading derivative instruments in managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange risks. The Company recognizes changes in the fair value of these trading derivatives and foreign exchange spot contracts as they occur in Trading revenue, net. The fair value of trading securities, derivative instruments and foreign exchange spot contracts is determined using quoted market prices, including quotes from dealers trading those securities or instruments, when available. If quoted market prices are not available, the fair value is determined based on pricing models, quoted prices of instruments with similar characteristics, discounted cash flows or the net asset value of the investee.

Transfer of financial assets

The Company records a transfer of financial assets as a sale when it surrenders control over those financial assets to the extent that consideration other than beneficial interests in the transferred asset is received in exchange. Otherwise, the transfer is accounted for as a collateralized borrowing transaction. The Company considers control surrendered when all conditions prescribed by SFAS No. 140 are met. Those conditions focus on whether the transferred financial assets are isolated beyond the reach of the Company and its creditors, the constraints on the transferee or beneficial interest holders, and the Company's rights and obligations to reacquire transferred financial assets. As appropriate, the Company obtains legal opinions supporting the conclusion that any transferred financial assets are isolated beyond the reach of the Company and its creditors.

Resale and repurchase agreements

The Company enters into short-term purchases of securities under agreements to resell (resale agreements) and sales of securities under agreements to repurchase (repurchase agreements) of substantially identical securities. Resale agreements and repurchase agreements are accounted for as secured lending and secured borrowing transactions, respectively, when control over the related securities has not been surrendered by the transferor. When control over the related securities has been surrendered by the transferor, the Company accounts for its resale agreements as purchases of securities with related forward commitments to resell and accounts for its repurchase agreements as sales of securities with related forward commitments to repurchase. It is the Company's policy to take possession of securities under agreements to resell. The Company minimizes the credit risk associated with these transactions by monitoring its aggregate credit exposure to each counterparty and by monitoring collateral value and requiring the counterparty to deposit additional collateral with the Company when deemed necessary.

The amount advanced under resale agreements accounted for as secured lending transactions and the amount borrowed under repurchase agreements accounted for as secured borrowings transactions are carried on the balance sheet at the amount advanced and the amount borrowed, respectively. Interest earned on resale agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Foreign currency translation

Foreign currency translation represents the effects of translating into Korean Won, the financial position and results of operations of entities located outside of Korea that have a functional currency other than the Korean Won, which is the Holding Company's functional and reporting currency. Foreign currency translation is recorded as a component of Accumulated other comprehensive income, net of tax within stockholders equity. Assets and liabilities are translated into Korean Won at period-end exchange rates, and income and expense items are translated using average rates for the relevant periods.

Foreign currency transactions executed by domestic Korean entities are accounted for at the exchange rates prevailing on the related transactions dates. Assets and liabilities denominated in foreign currencies are recorded and reported in the accompanying consolidated balance sheets using the period-end exchange rates. Gains and losses resulting from the settlement of foreign currency transactions and from the translation of assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of income except for gains and losses arising from the translation of available-for-sale securities, which are recorded as a component of Accumulated other comprehensive income, net of tax.

Derivatives designated as hedges

The Company uses various derivative instruments outside of its trading activities, including interest rate and foreign exchange swaps, futures, forwards and options, to manage the interest rate characteristics of certain assets or liabilities and to economically hedge against the effects of fluctuations in interest rates or foreign exchange rates. The Company designates a derivative as held for trading or hedging purpose when it enters into a derivative contract.

Derivatives designated as hedges must be highly effective at reducing the risk associated with the exposure being hedged. Each derivative must be designated as a hedge, with documentation of the risk management objective and strategy for the hedge, identification of the hedging instrument at inception, the hedged item and risk exposure, and how effectiveness is assessed prospectively and retrospectively.

Derivatives designated for hedging relationships are recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, all changes in the fair value of the derivative and changes in the fair value of the hedged item attributable to the hedged risk are recognized in current operations. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative is recorded in other comprehensive income and recognized in the consolidated income statement when the cash flow from the hedged item is realized. The ineffective portion of cash flow hedge is immediately recognized in current operations.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer an effective hedge; the derivative expires or is sold, terminated or exercised; or the hedge designation is removed. In these circumstances, the derivative will continue to be recorded on the balance sheet at its fair value with changes in fair value included in current earnings. For a discontinued fair value hedge, the previously hedged item is no longer adjusted for changes in fair value.

The majority of the Company's derivatives do not qualify as hedges pursuant to SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities as amended by SFAS No. 137, Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statement No. 133, by

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, and by SFAS No. 149 Amendment of Statement 133 on Derivative Instruments and Hedging Activities (collectively SFAS No. 133) and despite being effective economic hedges, changes in these derivatives are included in Trading revenue, net, except for certain derivatives which qualify as fair value hedges under the short-cut method. The short-cut method assumes no ineffectiveness in a hedging relationship involving an interest rate swap and an interest-bearing asset or liability. The changes in the fair value of the derivatives and the changes in the fair value of the hedged item attributable to the risk being hedged will be completely offset at the hedge's inception and on an on-going basis. Under the short-cut method, among other requirements, the critical terms of the derivative instrument and the hedged item should be initially the same and subsequently stay the same throughout the hedge's life and such needs to be documented to support the ongoing application of hedge accounting.

Available-for-sale securities

Securities not classified as held-to-maturity or trading are designated as securities available for sale. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. Realized gains and losses on the sales of securities are determined using the specific identification method for debt securities and the moving average method for equity securities and are included in Investment securities gain (loss), net. Available-for-sale securities are reported at fair value. Unrealized gains and losses on available-for-sale securities are excluded from earnings and reported in Accumulated other comprehensive income, net of tax. The declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary result in write-downs of the individual securities to their fair value. Factors considered in determining whether such declines in value are other-than-temporary include the length of time and the extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, the Company's intent and ability to hold the related security for a period of time sufficient to allow for any recovery in market value, and the state of the Korean economy (domestic securities only). The related write-downs are included in current operations as Investment securities gain (loss), net.

Held-to-maturity securities

Debt securities for which the Company has the positive ability and intent to hold until maturity are recorded at amortized cost and adjusted for accretion/amortization of discounts and premiums, respectively. Premiums and discounts for debt securities are amortized or accreted, respectively, using the effective interest rate method. The declines in the fair value of individual held-to-maturity securities below their amortized cost that are other-than-temporary result in write-downs of the individual securities to their fair value. Factors considered in determining whether such declines in value are other-than-temporary include the length of time and the extent to which fair value is less than cost, the financial condition and near-term prospects of the issuer, and the state of the Korean economy (domestic securities only). The related write-downs are included in current operations as Investment securities gain (loss), net.

Other investments

Equity securities without readily determinable fair values and investments in equity securities accounted for under the equity method are classified as other investment assets. Equity securities without readily determinable fair values consist of non-marketable equity securities, restricted stock, and investments in limited partnerships. Those equity securities are recorded using the cost or equity methods of accounting. The cost method is used for those investments in which the Company does not have significant influence over the investees. Under this method, there is no change to the cost basis unless there is an other-than-temporary decline in value, which

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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results in write-downs of the individual securities to their fair value. The related write-downs are included in current operations as Investment securities gain (loss), net. The equity method is used for those investments in which the Company has significant influence over the operations and financial policies of the investee. Under the equity method, the Company records its equity ownership share of the net income or loss of the investee in Investment securities gain (loss), net.

Loans and leases

Loans are reported at the principal amount outstanding adjusted for the allowance for loan losses, unearned income, loan fees and loan origination costs. Interest on loans is accrued at the effective rate and credited to income based on the principal amount outstanding.

The Company ceases the accrual of interest when principal or interest payments become one day past due. Any unpaid interest previously accrued on such loans is generally reversed against current year interest income. Cash receipts on non-accrual loans, for which the ultimate collectibility is uncertain, are applied as principal reductions, otherwise payments are applied first to the delinquent interest, normal interest, and then to the loan balance until it is paid in full. However, the Company continues to accrue interest on past due loans that are fully secured by deposits or on which there are financial guarantees from the Korean government or certain financial institutions. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current unless the Company believes that collection of the principal and related interest is doubtful.

Securities received by the Company involving loans that are restructured or settled are recorded at the fair value of the security at the date of restructuring or settlement. If available, quoted market prices are used to determine the fair value of the acquired securities. If quoted market prices are not available for the securities, the discounted expected cash flow method is used by using a market interest rate commensurate with the credit quality and duration of the investment. Alternatively, a pricing model or comparison to comparable securities may be used to determine an appropriate fair value. Any difference between the security's fair value and the net carrying amount of the loan is recorded as a direct charge-off or recovery, as appropriate, on the loan through the allowance for loan losses.

The Company provides equipment financing to its customers. Direct financing leases are carried at the aggregate of lease payments receivable plus estimated residual value of the leased property less unearned income, which is recognized using the effective interest method.

Allowance for loan and lease losses

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The allowance for loan and lease losses is maintained at a level believed by management to be sufficient to absorb estimated probable losses inherent in the loan and lease portfolio. The Company's allowance for loan and lease losses is based on management's continuing review and evaluation of the loan and lease portfolio and is management's best estimate of probable losses, which have been incurred as of the balance sheet date. The level of the allowance is based on an evaluation of the risk characteristics of the loan and lease portfolio and considers factors such as past loss experience and the financial condition of the borrower. Increases in the allowance for loan and lease losses are charged against income in the form of a provision for loan and lease losses. Adjustments to the allowance due to changes in measurement of impaired loans and leases are recognized through the provision for loan and lease losses. Loan and lease losses, net of recoveries, are charged directly to the allowance.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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

Loans classified as substandard or below according to asset classification guidelines of the FSC;

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 under U.S. GAAP.

Once a loan is identified as impaired, management measures 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 resulting value is less than the book value of the loan, a specific allowance is established. Any amounts deemed uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loan losses. Impairment criteria are applied to the loan portfolio, exclusive of smaller balance homogeneous loans such as consumer loans and credit card loans, which are evaluated collectively for impairment.

The allowance for loan losses related to commercial loans that are not deemed to be impaired, consumer loans and credit card loans is established using the expected loss. Expected losses are the product of default probability and loss severity. The Company establishes the expected losses related to corporate loans that the Company does 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. The Company establishes the expected losses 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.

For loans extended as a result of in-lieu payments made by the Company due to guarantee obligations, the Company records the loan at face value as of the payment date and records an increase to the allowance for loan losses and a decrease in the allowance for credit-related commitments based on the excess of the face value over the fair value of the loan. For repurchased loans subject to repurchase obligations, the Company records the loan at its fair value on the repurchase date. The excess of the repurchase price over the fair value, if any, is set off against the allowance for repurchase obligations. Such fair value is determined based on the discounted cash flow method.

Allowance for credit-related commitments and repurchase obligations

The allowance for credit-related commitments is maintained at a level believed by management to be sufficient to absorb estimated probable losses inherent in the off-balance sheet commitments which includes guarantees, commercial letters of credit, unused lines of credit and commitments to extend credit (see Note 36). The Company analyzes its off-balance sheet commitments for possible losses associated with such commitments. The Company reviews the ability of the counterparty of the underlying credit commitment to perform under the commitment. If it is determined that a loss is probable and estimable, the Company records a liability for other credit exposures in a similar manner as if a loan was granted under the terms of the commitment. The allowance for credit-related commitments is reflected in Other liabilities.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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The allowance for repurchase obligations is also maintained at a level believed by management to be sufficient to absorb estimated probable losses, estimated to be the difference between the future repurchase price and the fair value of the repurchased loan. The allowance for repurchase obligations is included in Other liabilities.

Deferred loan origination fees and costs

The Company recognizes certain employee and other direct costs associated with originating loans over the life of the loan as an adjustment of yield, net of any related fees received. The deferred fee income includes project financing fees related to the investment banking business, annual membership fees related to the credit card business and others. The deferred loan origination costs relate to direct loan origination activities performed by the Company that include evaluating the prospective borrower's financial condition, recording guarantees, collateral and other security arrangements, negotiating loan terms, preparing and processing loan documents, and closing the transaction. All other lending-related costs, including costs related to activities performed by the Company for advertising, soliciting potential borrowers, servicing existing loans, and other ancillary activities related to establishing and monitoring credit policies, supervision, and administration, are expensed as incurred.

Assets held for sale

Certain assets of a component to be disposed of are classified as held for sale in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. These assets are carried at the lower of aggregate cost or market value; accordingly, a loss is recognized for any initial or subsequent write-down to fair value less estimated selling costs.

Assets acquired through a loan foreclosure are initially recorded at fair value, less estimated selling costs, at the date of acquisition and are classified as held for sale. After acquisition, such assets are carried at the lower of their carrying amounts or fair values as determined by their estimated public auction price, net of selling costs.

Loans are designated as held for sale when the Company has a positive intent to sell the loans. Loans held for sale include mortgage loans and are carried at the lower of aggregate cost or market value. Loans held for sale are included in Assets held for sale.

Secured borrowings

Transfers of loans and securities related to certain securitizations, in which the control over the loans and securities has not been surrendered, are accounted for as secured borrowings. The liability for funds received under the related loans and securities sale agreements is included in Secured borrowings. Also, the amounts borrowed based on collateral and the amounts borrowed under repurchase agreements in which control over the related securities has not been surrendered by the transferor are included in Secured borrowings.

Loans and securities provided as collateral

The Company pledges loans as collateral for certain borrowings. These borrowings are structured as transfers of loans through asset securitizations, which are retained on the consolidated balance sheets, as the Company retains control of the assets transferred. The Company also pledges securities as collateral, primarily for borrowings structured as a transfer of securities through asset securitizations. The Company retains control of the securities and retains them on the balance sheet. Securities pledged against borrowings cannot be sold or re-pledged by the Company. However, the Company has the right to substitute the collateral provided that this is not to the detriment of the creditor.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005*****Premises and equipment***

Premises, equipment, leasehold improvements and capitalized leases are stated at cost less accumulated depreciation. Depreciation of buildings and leasehold improvements is computed on a straight-line basis over the estimated useful lives of the assets, or the term of the lease, if shorter, in the case of leasehold improvements. Depreciation of equipment and furniture and capitalized leases is computed on a declining balance basis over the useful lives of the assets. Gains or losses on disposals of premises and equipment are determined by reference to their carrying amount. Maintenance and repairs are charged to expense as incurred.

The estimated useful lives of premises and equipment are as follows:

Buildings	20 ~ 50 years
Equipment and furniture	4 ~ 8 years
Leasehold improvements	5 years
Capitalized leases	5 years

Other-than-temporary impairment

In connection with the recognition of other-than-temporary impairment, the length of time a security has been below cost is the primary factor in assessing whether an impairment loss should be recognized. Other than the length of time, the Company considers the extent to which fair value is less than its cost basis and evaluates the financial condition and near term prospects of the issuer, including any specific events that may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the issuer or the discontinuance of a segment of the business that may affect the future earnings potential; and considers its intent and ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value. The impairment loss is recorded under Investment securities gain (loss), net.

If the Company has decided to sell a specifically identified available-for-sale security whose fair value is less than its cost basis and the Company does not expect the fair value to recover prior to the expected time of the sale, a write-down for other-than-temporary impairment is recognized in earnings in the period in which the decision to sell is made.

Trust fees and compensation to the trust accounts

The Company receives fees for its management of trust assets, which are recognized on an accrual basis when the management services are provided and earned. The Company also is entitled to receive performance-based fees for certain trust accounts. These performance-based fees are recognized at the end of the performance period.

In addition, the Company is liable to compensate trust account holders for losses incurred in certain trust accounts subject to minimum return and principal, or principal guarantees. Accounts of such trusts are consolidated in the accompanying consolidated financial statements. The Company recognizes revenues and expenses related to these trusts on an accrual basis when the related interest income is earned and the interest expense is due to the account holders.

Fees and commission income

Fees and commissions primarily consist of fees from merchants, deposit accounts, loan commitments and credit card interchange income. Such fees are recognized when earned. Unearned income, including fees for providing guarantees and commercial letter of credits, is initially recorded as other liabilities and is recognized as fee income through the term of the guarantee or letter of credit contract.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Stock-based compensation

The Company accounts for its employee stock-based compensation plans in accordance with SFAS No. 123, Stock-Based Compensation. For stock compensation awards that call for settlement by issuing common stock, compensation expense is calculated using the fair value method based on the Black-Scholes option pricing model, and is charged to salary expense in the consolidated income statements and credited to APIC in the consolidated balance sheets over the vesting period. For stock compensation awards that call for settlement by cash, compensation expense is calculated using the intrinsic method based on the current stock price, and is charged to salary expense in the consolidated income statements and recorded as accrued expense in the consolidated balance sheets over the vesting period. Compensation expense is recognized over the vesting period in which an employee performs the service related to the stock compensation awards.

Income tax

In accordance with tax regulations in the Republic of Korea, income tax is calculated for each individual subsidiary legal entity in the Company on a standalone basis. As a result, losses incurred by subsidiaries cannot be offset against profits earned by any other profitable company. Deferred income taxes are provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred income tax benefit or expense is then recognized for the changes in deferred tax assets or liabilities between periods. Currently enacted tax rates are used to determine deferred tax amounts.

Deferred tax assets, including the carryforwards of unused tax losses, are recognized to the extent it is more likely than not that the deferred tax assets will be realized. To the extent the deferred tax assets are not realizable, a valuation allowance is recognized.

With respect to net operating loss (NOL) carryforwards and differences between the assigned values and the tax bases of the assets and liabilities in entities acquired by KDIC, the utilization of pre-acquisition NOL carryforwards and deductible temporary differences (by eliminating valuation allowance) results in the reduction of the deficit equity recorded at the time of acquisition.

Other comprehensive income, net of tax

Other comprehensive income, net of tax primarily consists of unrealized gains and losses, on an after-tax basis, related to available-for-sale securities and foreign currency translation adjustments. Gains and losses on available-for-sale securities are reclassified and included in Net

income as the gains or losses are realized upon sale of the securities. Unrealized losses on available-for-sale securities are also reclassified to Net income when deemed to be other-than-temporary. Unrealized gains or losses on foreign currency translation adjustments are reclassified to Net income upon the sale or liquidation of foreign operations.

Earnings per share

Basic earnings per share (EPS) is computed by dividing the net income applicable to common shares by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised and has been computed after giving consideration to the weighted average dilutive effect of the Company's common stock warrants, stock compensation awards and convertible bonds.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Translation of Korean Won statements to United States dollar statements

The Company operates primarily in Korea and its official accounting records are maintained in Korean Won. The United States dollar (U.S. dollar, US\$) amounts are provided herein as supplementary information solely for the convenience of the reader. Korean Won amounts are expressed in U.S. dollars at the rate of 1,010.00 Won to US\$1.00, the noon buying exchange rate in effect on December 30, 2005 as quoted by the Federal Reserve Bank of New York in the United States. Such convenience translation into U.S. dollars should not be construed as representations that the Korean Won amounts have been, could have been, or could in the future be, converted at this or any other rate of exchange.

Accounting changes

On July 1, 2005, the Company adopted SFAS No. 153, Exchanges of Nonmonetary Assets an amendment of APB Opinion No. 29. SFAS No. 153 amends the APB Opinion No. 29 exception to fair value measurement for nonmonetary exchanges to apply only to those exchanges which lack commercial substance, as defined in the standard. The adoption of the Statement did not have a material impact on the Company's financial position, operating results or cash flows.

On January 1, 2005, the Company adopted EITF Issue No. 02-14, Whether an Investor Should Apply the Equity Method of Accounting to Investments Other Than Common Stock if the Investor Has the Ability to Exercise Significant Influence over the Operating and Financial Policies of the Investee. EITF Issue No. 02-14 requires the use of the equity method of accounting for investments that are in-substance common stock when the investor has the ability to exercise significant influence over the investee. The adoption of this guidance did not have a material impact on the Company's financial position, operating results or cash flows.

On January 1, 2005, the Company adopted Statement of Position (SOP) 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer. SOP 03-3 addresses accounting for differences between contractual cash flows and cash flows expected to be collected from an initial investment in loans or debt securities acquired in a transfer if those differences relate, at least in part, to a deterioration of credit quality. It includes such loans acquired in purchase business combinations but does not apply to loans originated by the entity. SOP 03-3 prohibits companies from carrying over valuation allowances in the initial accounting for such loans and limits the yield that may be accreted to the excess of the estimate of undiscounted expected cash flows over the initial investment in the loan. Subsequent increases in cash flows expected to be collected generally should be recognized prospectively through adjustment of the loan's yield over its remaining life. Decreases in cash flows expected to be collected should be recognized as impairment. The application of SOP 03-3 did not have a significant impact on the Company's financial position, results of operations or cash flows.

2. Recent Accounting Pronouncements

FASB Statement (SFAS) No. 156, Accounting for Servicing of Financial Assets an amendment of FASB Statement No. 140

In March 2006, the FASB issued SFAS No. 156, *Accounting for Servicing of Financial Assets* an amendment of FASB Statement No. 140. SFAS No. 156 requires that an entity separately recognize a servicing asset or a servicing liability when it undertakes an obligation to service a financial asset under a servicing contract in certain situations. Such servicing assets or servicing liabilities are required to be initially measured at fair value, if practicable. SFAS No. 156 also allows an entity to choose one of two methods when subsequently measuring its servicing assets and servicing liabilities: (1) the amortization method or (2) the fair value

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

measurement method. The amortization method existed under SFAS No. 140 and remains unchanged in (1) allowing entities to amortize their servicing assets or servicing liabilities in proportion to and over the period of estimated net servicing income or net servicing loss and (2) requiring the assessment of those servicing assets or servicing liabilities for impairment or increased obligation based on fair value at each reporting date. The fair value measurement method allows entities to measure their servicing assets or servicing liabilities at fair value each reporting date and report changes in fair value in earnings in the period the change occurs. The Statement is effective for fiscal years beginning after September 15, 2006. The adoption of this Statement is not expected to have a material impact on the Company's financial position, operating results or cash flows.

FASB Statement (SFAS) No. 155, Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140

In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140, that permits fair value remeasurement of certain hybrid financial instruments, clarifies the scope of SFAS No. 133 regarding interest-only and principal-only strips, and provides further guidance on certain issues regarding beneficial interests in securitized financial assets, concentrations of credit risk and qualifying special purpose entities. SFAS No. 155 is effective for all instruments acquired or issued as of the first fiscal year beginning after September 15, 2006 and may be applied to certain other financial instruments held prior to the adoption date. Earlier adoption is permitted as of the beginning of an entity's fiscal year providing the entity has not yet issued financial statements. The Company does not expect the adoption of SFAS No. 155 to have a material impact on the Company's financial position, operating results or cash flows.

FASB Staff Position (FSP) Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments

In March 2004, the EITF issued EITF Issue No. 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments. EITF Issue No. 03-1 provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires disclosures about unrealized losses on investments in debt and equity securities. In September 2004, the FASB issued FASB Staff Position (FSP) EITF Issue 03-1-1, Effective Date of Paragraphs 10-20 of EITF Issue 03-1, which deferred the effective date of the recognition and measurement provisions of the consensus until further guidance is issued.

In November 2005, the FASB issued FSP Nos. FAS 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, revising the recognition and measurement provisions of EITF Issue No. 03-1. This FSP clarified and reaffirmed existing guidance as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Certain disclosures about unrealized losses on available-for-sale debt and equity securities that have not been recognized as other-than-temporary impairments are required under this FSP. The FSP is effective for fiscal years beginning after

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December 15, 2005. The adoption of this FSP did not have a significant impact on the Company's financial position, operating results or cash flows.

The disclosures required by EITF Issue No. 03-1 are included in Notes 9 and 10.

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Emerging Issues Task Force (EITF) Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights.

In June 2005, the EITF of the FASB issued EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*. EITF Issue No. 04-5 provides that the general partner(s) is presumed to control the limited partnership, unless the limited partners possess either substantive participating rights or the substantive ability to dissolve the limited partnership or otherwise remove the general partner(s) without cause (kick-out rights). Kick-out rights are substantive if they can be exercised by a simple majority of the limited partners voting interests. The guidance applies to general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified after June 29, 2005, and to general partners in all other limited partnerships no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The adoption of this guidance did not have a material impact on the Company's financial position, operating results or cash flows.

FASB Statement (SFAS) No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*. SFAS No. 154 generally requires retrospective application to prior periods' financial statements of all voluntary changes in accounting principle and changes required when a new pronouncement does not include specific transition provisions. This Statement applied to the Company beginning January 1, 2006 and did not have a material impact on the Company's financial position, operating results or cash flows.

FASB Statement (SFAS) No. 123 (Revised 2004), Share-Based Payment and Staff Accounting Bulletin No. 107, Share-Based Payment

In December 2004, the FASB issued SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS 123R). SFAS 123R replaces SFAS No. 123, *Accounting for Stock-Based Compensation* and supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees*. SFAS 123R requires compensation cost related to share-based payments to employees to be recognized in the financial statements based on their fair value. In April 2005, the SEC issued a rule which delayed the required effective date to the beginning of an entity's fiscal year which begins after June 15, 2005. Accordingly, the Company adopted SFAS 123R effective January 1, 2006, using the modified prospective method of transition. This method requires the provisions of SFAS 123R be applied to new awards and awards modified, repurchased or cancelled after the effective date. Additionally, compensation expense attributable to any unvested awards outstanding at the date of adoption must be recognized over the remaining requisite service period. In November, 2005, the FASB issued FSP No. FAS 123R-3, *Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards*. This FSP provides a transition election for calculating the pool of excess tax benefits available to absorb tax deficiencies recognized subsequent to the adoption of SFAS 123R which may be made up to one year from the initial adoption of SFAS 123R. The adoption of SFAS 123R did not have a significant impact on the Company's financial position, operating results or cash flows.

On March 29, 2005, the SEC released Staff Accounting Bulletin No. 107, Share-Based Payment (SAB No. 107) which provides guidance on several technical issues regarding the required adoption of SFAS No. 123R.

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

The Company has adopted SAB No. 107 on January 1, 2006 in conjunction with the adoption of SFAS No. 123R. Compliance with SAB No. 107 did not have a material impact upon the Company's financial position, operating results or cash flows.

3. Business Developments and Subsequent Events***Merger of Woori America Bank and Panasia Bank, N.A.***

On September 11, 2003, Panasia Bank, N.A. (Panasia) was merged into Woori America Bank, an overseas 2nd-tier subsidiary of the Company (a subsidiary of Woori Bank), pursuant to an agreement with National Penn Bancshares dated February 10, 2003, which had owned 100% stock of Panasia. The merger consideration was 41,324 million Won (US\$ 34.5 million) and in connection with the merger, Woori Bank increased its capital holding in Woori America Bank by 17,967 million Won on September 3, 2003. The results of Panasia's operations have been included in the consolidated financial statements since September 11, 2003.

The purchase price and transaction costs were funded from a cash capital contribution of 17,967 million Won by Woori Bank and Woori America Bank's available liquidity. The assets acquired and liabilities assumed from Panasia were recorded on Woori America Bank's balance sheet at management's best estimate of their fair values at September 11, 2003. The excess of the total merger consideration of 41,324 million Won in cash over the fair value of tangible and intangible assets of 244,131 million Won, less the liabilities assumed of 227,378 million Won, amounted to 24,571 million Won, which was recorded as goodwill. Panasia 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 merger enabled Woori America Bank to expand its presence in such community.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	Korean Won (in millions)
Cash and cash equivalents	14,371
Available-for-sale securities	99,359
Loans, net of allowance for loan losses	120,696
Premises and equipment, net	2,272
Accrued interest receivable	1,687
Core deposit intangible assets	3,526

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Other assets	2,220
Goodwill	24,571
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Total assets	268,702
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Deposits	226,821
Accrued interest payable	557
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Total liabilities	227,378
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Purchase price	41,324
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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005***Merger of Woori Bank and Woori Credit Card Co., Ltd.*

On December 12, 2003, in response to liquidity problems of Woori Credit Card Co., Ltd. stemming from the deteriorating asset quality of its credit card portfolio, the Holding Company resolved to merge Woori Credit Card Co., Ltd. into Woori Bank. The merger was consummated on March 31, 2004. Woori Bank acquired and assumed substantially all of the assets and liabilities of Woori Credit Card Co., Ltd. by exchanging one common share of Woori Credit Card Co., Ltd. with 0.3581 share of Woori Bank. In connection with the merger, on March 29, 2004, Woori Credit Card Co., Ltd. spun off and transferred back to Kwangju Bank its portfolio of Kwangju Bank brand credit card accounts, which had been acquired from Kwangju Bank in February 2003.

Acquisition of minority interest of Woori Securities Co., Ltd.

On June 18, 2004, the Holding Company issued 8,571,262 shares of new common stock in exchange for the 39.66% minority interest (15,584,113 shares) of Woori Securities Co., Ltd. in order to wholly own the subsidiary. The acquisition was accounted for using the purchase method. The purchase price for the common shares of Woori Securities Co., Ltd. amounted to 55,936 million Won, before stock issuance cost of 16 million Won, based on the fair value of the Holding Company's common stock as of April 28, 2004, the acquisition agreement and announcement date. The fair value of 39.66% of net assets acquired was 136,764 million Won.

The following table summarizes the 39.66% of the fair values of assets and liabilities of Woori Securities Co., Ltd. as of the date of acquisition:

	Korean Won (in millions)
Cash and cash equivalents	1
Deposits	101,874
Trading assets	61,592
Securities	8,680
Loans, net of allowance for loan losses	12,860
Other financial assets	193,291
Total non-allocable assets	378,298
Premises and equipment	13,851
Brokerage customer relationship	1,978

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Other intangible assets	2,271
<hr/>	
Total assets	396,398
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Due to depositors	64,197
Borrowings and debentures	13,448
Other liabilities	181,989
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Total liabilities	259,634
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Fair value of 39.66% of net assets	136,764
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After the initial allocation of the purchase consideration to the assets acquired and liabilities assumed based on their fair values as of the date of acquisition, 80,828 million Won of excess purchase consideration remained. Pursuant to SFAS No. 141, Business Combinations, the Company reassessed whether all assets acquired and liabilities assumed had been identified and recognized, performed remeasurements to verify that the consideration paid, assets acquired, and liabilities assumed had been properly valued, and recognized 62,728 million Won of

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

extraordinary gain for the year ended December 31, 2004, which was the excess of the fair value of the net assets acquired over the purchase consideration after allocation to premises and equipment, brokerage customer relationship and other intangible assets.

On January 20, 2005, Woori Securities Co., Ltd. purchased 14,000,000 shares of its common stock from the Holding Company for 11,000 Won per share and retired those purchased common stock.

Investments in LG Investment & Securities Co., Ltd.

On October 26 and December 24, 2004, the Holding Company acquired 7,000,000 shares and 25,877,487 shares of LG Investment & Securities Co., Ltd. s common stock for 54,980 million Won and 297,591 million Won, respectively. As a result, the Company owned 27.25% of the voting rights of LG Investment & Securities Co., Ltd. and was able to exercise significant influence over the operations and financial policies of the investee as of December 31, 2004. The Company s investments in LG Investment & Securities Co., Ltd. have been accounted for using the equity method from the date of the acquisition, December 24, 2004. LG Investment & Securities Co., Ltd. was a leading securities brokerage company in the Republic of Korea established in 1969. The aggregate fair value of LG Investment & Securities Co., Ltd. s net assets at the acquisition date was 1,618,821 million Won, of which the Company acquired share of 27.25% amounting to 441,052 million Won.

Merger of LG Investment & Securities Co., Ltd. and Woori Securities Co., Ltd.

On March 31, 2005, LG Investment & Securities Co., Ltd. acquired and assumed substantially all of the assets and liabilities of Woori Securities Co., Ltd. by exchanging one common share of Woori Securities Co., Ltd. into 0.654 share of LG Investment & Securities Co., Ltd. Upon the consummation of the merger, the combined entity changed its name to Woori Investment & Securities Co., Ltd. As a result of the merger and additional acquisition of 1,050,000 shares of common stock of Woori Investment & Securities Co., Ltd. through over-the-counter trading in the market on April 12, 2005, the Holding Company owned 35.09% of the voting rights of Woori Investment & Securities Co., Ltd. as of December 31, 2005. The merger was carried out as a part of the Company s strategic plan to strengthen its securities brokerage service. The Company accounts for the investments in Woori Investments & Securities Co., Ltd. under the equity method.

Acquisition of LG Investment Trust Management Co., Ltd. and joint venture agreement with Credit Suisse Group

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On May 6, 2005, the Holding Company acquired 5,400,000 shares of LG Investment Trust Management Co., Ltd.'s common stock from Woori Investment & Securities Co., Ltd., an equity method investee of the Company, for 72,948 million Won. As a result of the acquisition, the Holding Company obtained control over LG Investment Trust Management Co., Ltd. owning 90.00% of the voting rights. LG Investment Trust Management Co., Ltd. was established in 1988 to provide investment trust management service in Korea. On May 31, 2005, LG Investment Trust Management Co., Ltd. merged with Woori Investment Trust Management Co., Ltd., a subsidiary wholly owned by the Holding Company, and changed its name to Woori Asset Management Co., Ltd. Woori Asset Management Co., Ltd. newly issued 3,810,000 common shares to the Holding Company in exchange for the Holding Company's interest in Woori Investment Trust Management Co., Ltd. which resulted in the acquisition of an additional 2.11% interest in Woori Asset Management Co., Ltd. by the Holding Company. Upon consummation of the merger, and acquisition and retirement of 300,000 shares of minority interest of Woori Asset Management Co., Ltd., the Holding Company owned 96.85% of the voting rights of Woori Asset Management Co., Ltd.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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The Holding Company recorded the basis of its investment in Woori Asset Management Co., Ltd. at 105,699 million Won, which was the sum of 72,948 million Won of cash paid to Woori Investment & Securities Co., Ltd. for the 90.00% interest in LG Investment Trust Management Co., Ltd., 1,072 million Won of fair value of additionally acquired 2.11% interest in Woori Asset Management Co., Ltd. and the book value of residual interest in Woori Investment Trust Management Co., Ltd. amounting to 31,679 million Won. As a result of the transaction, the Holding Company recognized 40 million Won of gain. The excess of the Holding Company's basis of its investment in Woori Asset Management Co., Ltd. over the net asset value of Woori Asset Management Co., Ltd. amounted to 24,790 million Won and was recorded as Goodwill.

On July 18, 2005, Woori Asset Management Co., Ltd. purchased and subsequently retired its residual minority interest, which totaled to 300,000 shares of common stock, for 4,029 million Won. As a result, the Holding Company became the sole owner of Woori Asset Management Co., Ltd. In connection with the purchase and retirement of minority interest, the Company recorded 1,406 million Won of Goodwill.

On September 5, 2005, Woori Asset Management Co., Ltd. purchased 2,548,000 shares of its common stock from the Holding Company for 8,610 Won per share and retired those purchased common stock. Upon the completion of the common stock retirement, number of common shares issued by Woori Asset Management Co., Ltd. decreased from 9,210,000 shares to 6,662,000 shares, all of which was owned by the Holding Company as of December 31, 2005.

On April 11, 2006, Woori Asset Management Co., Ltd. and Credit Suisse Asset Management International Holdings, a wholly-owned subsidiary of Credit Suisse Group, entered into a joint venture agreement. According to the agreement, 30.00% of the Holding Company's stake in Woori Asset Management Co., Ltd. will be transferred to Credit Suisse Asset Management International Holdings. After the transfer, Woori Asset Management Co., Ltd. will be renamed Woori Credit Suisse Asset Management Co., Ltd. The agreement also includes involvement of Credit Suisse Asset Management International Holdings in management of Woori Credit Suisse Asset Management Co., Ltd. by participating in the board of directors.

Retirement of limited partnership interest and liquidation of Woori First Private Equity, L.P.

On September 29, 2005, Woori First Private Equity, L.P., a limited partnership of which Woori Bank was the general partner, purchased from Merrill Lynch IBK Positions Inc. a part of the limited partnership interest for 26,331 million Won and retired it. Through the purchase and retirement, Woori Bank's stake in Woori First Private Equity, L.P. increased from 52.38% to 98.71%. The excess of the total consideration of 26,331 million Won over 46.33% of the fair value of net assets amounting to 24,281 million Won as of the transaction date was recorded as goodwill by Woori Bank. However, 2,050 million Won of goodwill then recorded was considered impaired as of December 31, 2005, and an impairment loss equal to the carrying amount of the goodwill was recognized. Woori First Private Equity, L.P. was included in the consolidated financial statements of the Company until its liquidation on March 31, 2006.

Establishment of Woori Private Equity Co., Ltd.

On October 24, 2005, the Holding Company incorporated Woori Private Equity Co., Ltd. with initial paid-in capital amounting to 10,000 million Won for the purpose of specializing in investments in various foreign and domestic private equity funds. Woori Private Equity Co., Ltd. was included in the consolidated financial statements of the Company from the date of its establishment.

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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

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FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Acquisition of minority interest of Woori Capital Advisors Asset Management Co., Ltd. and joint venture agreement with Shinsei Bank

On October 28, 2005, Woori F&I Co., Ltd. purchased from Lehman Brothers Luxembourg Investments Sarl, an affiliate of Lehman Brothers Holdings Inc. (Lehman), the minority interest in Woori Capital Advisors Asset Management Co., Ltd. for 3,868 million Won in cash. Through the purchase, Woori F&I Co., Ltd. s stake in Woori Capital Advisors Asset Management Co., Ltd. increased from 51.00% to 100.00%.

On February 3, 2006, Woori F&I Co., Ltd. entered into a joint venture agreement with CRT9 Ltd., a subsidiary of Shinseigin Finance Co., Ltd., which in turn is a direct subsidiary of Shinsei Bank of Japan. Pursuant to the agreement, Woori F&I Co., Ltd. transferred 49.00% of its 100.00% interest in Woori Capital Advisors Asset Management Co., Ltd. to CRT9 Ltd. On February 23, 2006, Woori Capital Advisors Asset Management Co., Ltd. was renamed Woori SB Asset Management Co., Ltd.

Merger of Woori America Bank and South Coast Commercial Bank

On December 5, 2005, South Coast Commercial Bank (South Coast), a wholly owned subsidiary of FCB Bancorp, was merged into Woori America Bank. The merger consideration was 3,040 million Won (US\$ 3 million). The results of South Coast s operation have been included in the consolidated financial statements since December 5, 2005.

The purchase price and transaction costs were funded from Woori America Bank s available funding sources. The assets acquired and liabilities assumed from South Coast were recorded on Woori America Bank s balance sheet at management s best estimate of their fair values at December 5, 2005. The excess of the total merger consideration of 3,040 million Won in cash over the fair value of tangible assets of 2,534 million Won, less the liabilities assumed of 507 million Won, amounted to 1,013 million Won, which was recorded as goodwill. South Coast was established in 1978 and provided commercial banking service in the western United States. The merger enabled Woori America Bank to expand its presence in such region.

4. Transfers of Financial Assets

In fiscal years 1997, 1998 and 1999, the Company sold certain non-performing loans to the Korea Asset Management Corporation (KAMCO). The sales agreements allowed KAMCO to require the Company to repurchase certain loans. Such loans amounted to 357,824 million Won, 44,012 million Won and 17,050 million Won as of December 31, 2003, 2004 and 2005, respectively. As of December 31, 2003, 2004 and 2005,

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the Company has recorded a liability of 134,753 million Won, 21,843 million Won and 5,685 million Won, respectively, representing its estimated recourse obligation under the sales agreements.

KAMCO is an entity owned by the Korean government and was established to purchase, manage and dispose of non-performing assets in the Korean financial sector. Its purpose is to minimize restructuring costs within the Korean financial sector, maximize the recovery of non-performing assets and restore soundness to the Korean financial sector. Sales to KAMCO have been recorded as true sales based on the following criteria of SFAS No. 140: (1) the sold loans have been isolated from the Company, (2) KAMCO has the right to pledge or exchange the loans and (3) the Company does not maintain effective control over the loans.

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The following table presents the restricted cash as of December 31:

	Korean Won (in millions)		
	2003	2004	2005
Deposits with Korea Securities Finance Corporation	123,500	152,200	
Deposits for severance payments	127,967	185,720	231,800
Deposits related to derivatives contracts	93,270	23,142	136,581
Deposits for guarantee of payment for secured borrowings	15,449	26,130	2,508
Other	12,661	677	4,778
Total restricted cash	372,847	387,869	375,667

In accordance with the Securities and Exchange Act of Korea and the Futures Trading Act of Korea, customers were required to deposit certain amounts with Woori Securities Co., Ltd. (merged with LG Investment & Securities Co., Ltd. and was renamed Woori Securities & Investment Co., Ltd. in 2005, see Note 3) for securities and futures trading or other transactions which were required to be held in a segregated client account at the Korea Securities Finance Corporation. As of December 31, 2005, there were no such deposits outstanding.

The deposits for severance payments are placed with group severance benefit insurance plans at four Korean insurance companies. The deposits related to derivatives contracts are generally restricted until the related derivatives contracts expire. Also, the Company made deposits as collateral for senior collateralized loan obligations.

6. Call Loans and Securities Purchased under Resale Agreements

Call loans and securities purchased under agreements to resell, at their respective carrying values, consisted of the following as of December 31:

	Korean Won (in millions)		
	2003	2004	2005
Call loans	967,175	1,387,998	1,364,283
Securities purchased under resale arrangements	159,813	111,043	61,361
Total	1,126,988	1,499,041	1,425,644

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005****7. Trading Assets and Liabilities**

The following table presents trading assets and liabilities as of December 31:

	Korean Won (in millions)		
	2003	2004	2005
Trading assets:			
Debt securities			
Korean treasury and government agencies	1,822,676	3,521,429	1,726,330
Corporate	920,339	992,687	1,431,830
Financial institutions	501,496	750,354	528,580
Equity securities	271,191	211,463	293,323
Beneficiary certificates	306,455	93,376	93,824
	<u>3,822,157</u>	<u>5,569,309</u>	<u>4,073,887</u>
Total debt and equity instruments			
Foreign exchange spot contracts	1,299	2,724	13,129
Derivative instruments			
Exchange rate derivatives	217,511	1,227,462	609,127
Interest rate derivatives	222,934	167,733	119,770
Credit derivatives	996	283	258
Equity derivatives	25,917	21,870	73,031
	<u>468,657</u>	<u>1,420,072</u>	<u>815,315</u>
Total derivative instruments and foreign exchange spot contracts			
Total trading assets	<u>4,290,814</u>	<u>6,989,381</u>	<u>4,889,202</u>
Trading liabilities:			
Foreign exchange spot contracts	2,389	4,180	12,958
Derivative instruments			
Exchange rate derivatives	270,640	1,235,846	535,151
Interest rate derivatives	178,034	168,720	189,497
Credit derivatives	11,479	787	117
Equity derivatives	10,532	218,555	601,500
	<u>473,074</u>	<u>1,628,088</u>	<u>1,339,223</u>
Total trading liabilities			

8. Trading Revenue, Net

The following table presents net trading related revenue for the years ended December 31:

	Korean Won (in millions)		
	2003	2004	2005
Debt securities	(45,532)	107,069	(44,582)
Equity securities	(6,826)	11,048	121,978
Beneficiary certificates	9,391	6,151	10,458
Foreign exchange spot contracts	221,200	234,914	18,929
Derivative instruments	(66,869)	76,625	149,516
Total net trading related revenue	111,364	435,807	256,299

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For the years ended December 31, 2003 and 2005, net unrealized holding losses on trading securities of 128,416 million Won and 3,873 million Won, respectively, were included in Trading revenue, net and for the year ended December 31, 2004, net unrealized holding gains on trading securities of 45,586 million Won were included in Trading revenue, net.

9. Securities

As of December 31, 2003, the amortized cost and estimated fair value of the Company's available-for-sale securities and held-to-maturity securities and the related unrealized gains and losses were as follows:

	Korean Won (in millions)			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Available-for-sale securities:				
Debt securities				
Korean treasury and government agencies	6,592,255	44,485	(18,766)	6,617,974
Corporate	2,696,710	73,430	(13,324)	2,756,816
Financial institutions	2,233,925	17,460	(3,662)	2,247,723
Foreign governments	41,067	529	(10)	41,586
Mortgage-backed securities	72,360	483	(675)	72,168
Equity securities	192,317	96,117	(7,875)	280,559
Beneficiary certificates	384,142	7,756	(835)	391,063
Total available-for-sale securities	12,212,776	240,260	(45,147)	12,407,889
Held-to-maturity securities:				
Debt securities				
Korean treasury and government agencies	8,466,078	342,814	(5,810)	8,803,082
Corporate	490,269	2,250	(626)	491,893
Financial institutions	805,619	3,981	(1,738)	807,862
Foreign governments	39,567	937	(51)	40,453
Total held-to-maturity securities	9,801,533	349,982	(8,225)	10,143,290

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As of December 31, 2004, the amortized cost and estimated fair value of the Company's available-for-sale securities and held-to-maturity securities and the related unrealized gains and losses were as follows:

	Korean Won (in millions)			
	Amortized cost	Gross unrealized gain	Gross unrealized loss	Fair value
Available-for-sale securities:				
Debt securities				
Korean treasury and government agencies	6,308,450	56,594	(7,135)	6,357,909
Corporate	3,307,604	76,891	(2,484)	3,382,011
Financial institutions	1,975,547	12,865	(142)	1,988,270
Foreign governments	48,181	227		48,408
Mortgage-backed securities	67,130	362	(6)	67,486
Equity securities	199,075	203,927	(1,533)	401,469
Beneficiary certificates	58,334	2,827	(4,321)	56,840
Total available-for-sale securities	11,964,321	353,693	(15,621)	12,302,393
Held-to-maturity securities:				
Debt securities				
Korean treasury and government agencies	7,567,195	317,931	(32)	7,885,094
Corporate	213,762	33,477		247,239
Financial institutions	560,825	6,263	(30)	567,058
Foreign governments	44,978			44,978
Mortgage-backed securities	19,500	32		19,532
Total held-to-maturity securities	8,406,260	357,703	(62)	8,763,901

As of December 31, 2005, the amortized cost and estimated fair value of the Company's available-for-sale securities and held-to-maturity securities and the related unrealized gains and losses were as follows:

Korean Won (in millions)

	<u>Amortized cost</u>	<u>Gross unrealized gain</u>	<u>Gross unrealized loss</u>	<u>Fair value</u>
Available-for-sale securities:				
Debt securities				
Korean treasury and government agencies	11,107,526	15,040	(17,890)	11,104,676
Corporate	3,570,754	44,873	(30,732)	3,584,895
Financial institutions	2,448,963	8,786	(4,372)	2,453,377
Foreign governments	49,004	16	(60)	48,960
Mortgage-backed securities	91,903	95	(188)	91,810
Equity securities	190,781	449,505	(472)	639,814
Beneficiary certificates	358,328	6,111		364,439
	<u>17,817,259</u>	<u>524,426</u>	<u>(53,714)</u>	<u>18,287,971</u>
Held-to-maturity securities:				
Debt securities				
Korean treasury and government agencies	8,187,647	31,426	(59,723)	8,159,350
Corporate	72,943	9,378	(85)	82,236
Financial institutions	1,274,544	813	(6,682)	1,268,675
Foreign governments	54,887	1,025		55,912
Mortgage-backed securities	47,783		(261)	47,522
	<u>9,637,804</u>	<u>42,642</u>	<u>(66,751)</u>	<u>9,613,695</u>

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The BOK, the Korea Development Bank (KDB), and KAMCO are financial institutions owned and controlled by the Korean government. Monetary Stabilization Bonds were issued by the BOK and included in Korean treasury and government agencies, and Industrial Financial Debentures were issued by KDB and were included in financial institutions. Non-Performing Assets (NPA) Management Fund Bonds, issued by KAMCO were included in Korean treasury and government agencies. Monetary Stabilization Bonds, Industrial Financial Debentures and NPA Management Fund Bonds as of December 31, 2003, 2004 and 2005 are summarized below.

	Korean Won (in millions)					
	2003		2004		2005	
	Amortized cost	Fair value	Amortized cost	Fair value	Amortized cost	Fair value
Monetary Stabilization Bonds						
Available-for-sale securities	2,699,407	2,527,254	2,773,416	2,801,727	6,979,809	6,970,591
Held-to-maturity securities	331,150	331,494	325,150	325,596	3,907,708	3,902,681
Total	3,030,557	2,858,748	3,098,566	3,127,323	10,887,517	10,873,272
Industrial Financial Debentures						
Available-for-sale securities	383,864	388,042	312,117	314,192	502,157	500,883
Held-to-maturity securities	219,645	221,381	240,080	244,222	596,354	591,902
Total	603,509	609,423	552,197	558,414	1,098,511	1,092,785
NPA Management Fund Bonds						
Available-for-sale securities	132,551	132,294	89,915	91,980	30,015	29,983
Held-to-maturity securities	10,583	10,522	29,852	30,954	49,888	49,301
Total	143,134	142,816	119,767	122,934	79,903	79,284

For the years ended December 31, 2003, 2004 and 2005, the Company recognized pre-tax impairment losses of 163,340 million Won, 116,866 million Won and 44,758 million Won, respectively, on available-for-sale securities and held-to-maturity securities, where decreases in values were deemed to be other-than-temporary. Any deterioration in the Korean economy or in the specific circumstances of the counterparty to the security, could adversely affect the fair value of these securities held by the Company.

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The following table presents unrealized loss and fair value of available-for-sale and held-to-maturity securities at December 31, 2005 for which an impairment has not been recognized. These securities are segregated between investments that have been in a continuous unrealized loss position for less than twelve months and equal to or greater than twelve months.

	Korean Won (in millions)					
	Unrealized loss position less than 12 months		Unrealized loss position equal to or greater than 12 months		Total	
	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value
Available-for-sale:						
Debt securities						
Korean treasury and government agencies	(17,890)	6,042,848			(17,890)	6,042,848
Corporate	(30,732)	2,003,832			(30,732)	2,003,832
Financial institutions	(4,326)	1,418,418	(46)	9,793	(4,372)	1,428,211
Foreign governments	(60)	15,123			(60)	15,123
Mortgage-backed securities	(188)	58,634			(188)	58,634
Sub total	(53,196)	9,538,855	(46)	9,793	(53,242)	9,548,648
Equity securities	(472)	11,110			(472)	11,110
Total	(53,668)	9,549,965	(46)	9,793	(53,714)	9,559,758
Held-to-maturity:						
Debt securities						
Korean treasury and government agencies	(59,405)	5,442,148	(318)	9,880	(59,723)	5,452,028
Corporate	(85)	9,898			(85)	9,898
Financial institutions	(6,448)	1,121,964	(234)	19,766	(6,682)	1,141,730
Foreign governments						
Mortgage-backed securities	(261)	43,210			(261)	43,210
Total	(66,199)	6,617,220	(552)	29,646	(66,751)	6,646,866

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Management does not believe any individual unrealized loss as of December 31, 2005 represents an other-than-temporary impairment, having considered (1) the length of time a security has been below cost; (2) the extent to which fair value is less than its cost basis; (3) the financial condition and near term prospects of the issuer, including any specific events that may influence the operations of the issuer such as changes in technology that may impair the earnings potential of the issuer or the discontinuance of a segment of the business that may affect the future earnings potential; and (4) the Company's ability to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in market value (see Note 1). The majority of unrealized losses in the portfolio are attributable to changes in interest rates, not to the deterioration of the creditworthiness of the issuer and the Company has the ability to retain these securities until the anticipated recovery. The total number of security positions in the investment portfolio that were in an unrealized loss position at December 31, 2005 is 528 for available-for-sale securities and 541 for held-to-maturity securities.

For the years ended December 31, 2003, 2004 and 2005, proceeds from sales of available-for-sale securities amounted to 7,203,809 million Won, 2,151,575 million Won and 2,705,153 million Won, respectively. For the

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years ended December 31, 2003, 2004 and 2005, the gross realized gains amounted to 155,103 million Won, 305,000 million Won and 240,653 million Won, respectively, and the gross realized losses amounted to 65,265 million Won, 71,608 million Won and 89,775 million Won, respectively.

The amortized cost and estimated fair value of the Company's available-for-sale debt securities and held-to-maturity debt securities as of December 31, 2005 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

	Korean Won (in millions)			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized	Fair value	Amortized	Fair value
	cost		cost	
Due in one year or less	9,556,974	9,560,207	4,145,357	4,149,905
Due after one year through five years	7,353,349	7,334,551	5,413,012	5,380,287
Due after five years through ten years	195,998	192,688	75,121	79,187
Due after ten years	161,829	196,272	4,314	4,316
Total	17,268,150	17,283,718	9,637,804	9,613,695

As discussed in Note 1, certain Woori Subsidiaries issued common shares to KDIC in exchange for KDIC bonds. Woori Subsidiaries have also purchased additional KDIC bonds for trading purposes. The KDIC bonds have readily determinable market prices and their use by the Company is not restricted. The details of KDIC bonds as of December 31, 2003, 2004 and 2005 are summarized below:

	Korean Won (in millions)			
	Amortized	Gross	Gross	Fair value
	cost	unrealized	unrealized	
		gain	loss	
As of December 31, 2003:				

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Trading securities	305,947	268	(3,947)	302,268
Available-for-sale securities	2,081,199	32,885	(4,538)	2,109,546
Held-to-maturity securities	6,088,692	254,410	(195)	6,342,907
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total KDIC bonds	8,475,838	287,563	(8,680)	8,754,721
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2004:				
Trading securities	210,087	6,866	(386)	216,567
Available-for-sale securities	2,049,396	9,654	(5,127)	2,053,923
Held-to-maturity securities	4,706,388	154,122		4,860,510
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total KDIC bonds	6,965,871	170,642	(5,513)	7,131,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
As of December 31, 2005:				
Trading securities	190,317	137	(6,192)	184,262
Available-for-sale securities	1,823,154	13,683	(402)	1,836,435
Held-to-maturity securities	1,023,450	3,533	(15,921)	1,011,062
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total KDIC bonds	3,036,921	17,353	(22,515)	3,031,759
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Gross unrealized gains and losses on trading securities are included in Trading revenue, net.

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Interest income from KDIC bonds for the years ended December 31, 2003, 2004 and 2005 was as follows:

	Korean Won (in millions)		
	2003	2004	2005
Interest income:			
Trading securities	26,531	14,581	11,154
Available-for-sale securities	105,176	109,845	78,811
Held-to-maturity securities	515,489	443,799	61,116
Total interest income	647,196	568,225	151,081

Carrying values of securities pledged in relation to repurchase agreements, borrowing transactions, margin for futures contracts and asset securitizations as of December 31, 2003, 2004, and 2005 were 7,647,113 million Won, 8,619,794 million Won and 7,807,190 million Won, respectively (see Note 36).

10. Other Investment Assets

The following table presents other investment assets as of December 31:

	Accounting method used	Korean Won (in millions)		
		2003	2004	2005
Investments in affiliates	Equity method	152,543	511,091	750,975
Restricted stock	Cost method	241,327	292,191	328,931
Non-marketable equity securities	Cost method	388,646	324,098	303,339
Investments in limited partnerships	Cost method	10,230	10,800	14,023
Total other investment assets		792,746	1,138,180	1,397,268

Investments in affiliates are investments in which the Company has significant influence over the operations and financial policies of the investee, and are accounted for under the equity method. Investments in affiliates include investments in limited partnerships if the limited partnership interest is greater than 3% to 5%, pursuant to EITF Topic D-46, Accounting for Limited Partnership Investments. Under the equity method, the Company records its equity ownership share of the net income or loss of the investee in Investment securities gain (loss), net.

The cost method is used for restricted stock, non-marketable equity securities and investments in limited partnerships other than those included in the investments in affiliates. Under this method, there is no change to the cost basis unless there is an other-than-temporary decline in value, which results in write-down.

Restricted stock whose original period of restriction on disposition is more than one year from its acquisition through debt-to-equity conversion is reclassified into available-for-sale securities and recorded at fair value when its restriction on disposition is lifted or when the remaining period of the restriction becomes less than one year. The fair value of restricted stock is estimated by discounting the fair value of the identical stock without restriction.

The aggregate cost of the Company's cost method investments totaled 646,293 million Won as of December 31, 2005. Investments with an aggregate cost of 252,475 million Won were not evaluated for

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impairment because the Company did not estimate the fair value of those investments in accordance with paragraphs 14 and 15 of SFAS No. 107, Disclosures about Fair Value of Financial Instruments, and the Company did not identify any events or changes in circumstances that may have had a significant adverse effect on the fair value of those investments. Of the remaining 393,818 million Won of investments, the Company estimated that the fair value exceeded the cost of investments with an aggregate cost of 387,159 million Won. The remaining 6,659 million Won of cost method investments were evaluated for impairment and the Company recorded impairment losses on these investments which the Company considered to be other-than-temporary.

For the years ended December 31, 2003, 2004 and 2005, the Company recognized pre-tax impairment losses of 46,030 million Won, 13,170 million Won and 10,520 million Won, respectively, on other investment assets, where decreases in values were deemed to be other-than-temporary. Any deterioration in the Korean economy or in specific situations of the counterparty to the investment, could adversely affect the fair value of these investment assets held by the Company.

11. Securitization of Loans and Variable Interest Entities*Securitization of loans*

For the years ended December 31, 2003, 2004 and 2005, the Company securitized certain loans with an aggregate principal balance of 2,296,641 million Won, 646,617 million Won and 1,887,256 million Won, respectively, and retained certain interests in those loans. In connection with these transactions, the Company received 727,848 million Won, 313,918 million Won and 709,434 million Won for the years ended December 31, 2003, 2004 and 2005, respectively, as consideration and no gain or loss was recognized. The Company also received cash flows of 5,476 million Won, 1,279 million Won and 2,751 million Won for providing asset management services for the years ended December 31, 2003, 2004 and 2005, respectively.

The key economic assumptions used in measuring the fair value of retained interests at the time of securitization during the years ended December 31, 2003, 2004 and 2005 were as follows:

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Collection ratio	20.14 ~ 20.83%	41.51 ~ 63.55%	47.97 ~ 59.28%
Weighted average life	1.20 ~ 1.70 years	1.07 ~ 2.17 years	0.74 ~ 1.61 years
Weighted average discount rate	9.53 ~ 11.40%	8.71 ~ 9.72%	9.59 ~ 10.20%

The Company holds retained interests in securitized financial assets through investments in bonds issued by securitization vehicles and common shares of such vehicles. The investments in bonds are classified as held-to-maturity securities and the investments in common shares are accounted for using the equity method. The Company determines the fair value of the retained interests using the present value of future cash flows taking into consideration the priority of payments. The aggregate amounts of bonds and equity investments that the Company holds as retained interests in the assets securitized are 100,237 million Won and 43,164 million Won, 128,413 million Won and 70,091 million Won, and 133,362 million Won and 49,171 million Won as of December 31, 2003, 2004 and 2005, respectively.

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As of December 31, 2005, the key economic assumptions in subsequently measuring the fair value of aggregate retained interests in the assets securitized, which totaled 182,533 million Won, and the sensitivity of the current fair value of residual cash flows to 10% and 20% adverse changes in those assumptions are summarized as follows:

	Key assumptions	Korean Won	
		(in millions)	
		10%	20%
Adverse change in collection ratio	13.80 ~ 83.90%	(16,808)	(33,620)
Adverse change in weighted average life	0.47 ~ 1.04 years	(2,376)	(4,661)
Adverse change in weighted discount rate	8.43 ~ 10.41%	(2,103)	(4,124)

For the securitized assets in which the Company held retained interests, there were 40,850 million Won and 98,235 million Won of credit losses recognized prior to securitization in the years ended December 31, 2003 and 2005, respectively. There was no credit loss recognized prior to securitization in the year ended December 31, 2004. The amount of the net charge-offs recognized subsequent to securitization during the years ended December 31, 2003, 2004 and 2005 were 339,946 million Won, 553,363 million Won and 99,291 million Won, respectively. 2,688,181 million Won and 1,905,913 million Won of the principal balance of loans securitized and outstanding as of December 31, 2003 and 2004, respectively, originally consisted of non-performing loans and were all considered to be delinquent. Of 954,947 million Won of the principal balance of loans securitized and outstanding as of December 31, 2005, 915,846 million Won were considered to be delinquent.

The sensitivities depicted in the preceding table are hypothetical and should be used with caution. The likelihood of those percent variations selected for sensitivity testing is not necessarily indicative of expected market movements because the relationship of the change in the assumptions to the change in fair value may not be linear. Also, in this table, the effect of a variation in a particular assumption on the fair value of a retained interest is calculated without changing any other assumptions. This might not be the case in actual market conditions since changes in one factor might result in changes to other factors. Further, the sensitivities depicted above do not consider any corrective actions that the Company might take to mitigate the impact of any adverse changes in one or more key assumptions.

Variable interest entities (VIEs)

The Company, in the ordinary course of its business, has involvements in SPEs for the purpose of securitizing non-performing assets, guaranteed trust accounts for the purpose of managing funds on behalf of its customers and investment equity funds for the purpose of efficient management of investments, for which the Company is the primary beneficiary (see Notes 39 and 41).

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The following table represents the carrying amount of assets as of December 31, 2003, 2004 and 2005 held by VIEs which have been consolidated by the Company in accordance with the provisions of FIN No. 46R.

	Korean Won (in millions)		
	2003 ⁽¹⁾	2004	2005
Loans, net of allowance for loan losses	773,144	678,702	583,549
Investments	1,250,707	1,941,439	4,175,168
Other assets	843,949	3,751,816	2,146,853
Total assets	2,867,800	6,371,957	6,905,570

⁽¹⁾ VIEs created before February 1, 2003 and newly consolidated by the Company in 2004 were not included as of December 31, 2003.

The Company also, in the ordinary course of its business, has involvements in certain VIEs through various types of interests including investments in subordinated debts or limited partnerships, the right to receive fees for acting as an asset manager or a business trustee, and the right to receive fees for providing liquidity facilities. Management believes that these VIEs are not required to be consolidated because the Company is not considered to be the primary beneficiary. These VIEs are established to access funding from the commercial paper market or the corporate debt market by transferring assets to the VIEs, or for the purpose of efficient management of investments. The transactions with these entities are conducted at arm's length. The Company records and reports these transactions in accordance with their substance similar to any other third party transactions.

The following table sets forth total assets and maximum exposure to loss associated with the Company's variable interests in the unconsolidated VIEs for which it is not a primary beneficiary as of December 31, 2003, 2004 and 2005.

Korean Won (in millions)					
2003		2004		2005	
Total	Maximum exposure ⁽¹⁾	Total	Maximum exposure ⁽¹⁾	Total	Maximum exposure ⁽¹⁾
assets	assets	assets	assets	assets	assets

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Retained interests in SPEs	757,748	113,203	652,758	198,504	727,854	182,533
Liquidity facilities to SPEs ⁽²⁾	635,047	566,497	2,123,186	1,198,410	3,334,859	2,298,131
Asset management for SPEs ⁽²⁾	2,159,228		2,321,811		1,790,995	
Investments in SPEs ⁽²⁾	12,261,763	606,070	9,481,755	863,950	11,346,167	1,558,564
Investments in other VIEs	9,429,219	365,478	5,286,358	85,108	5,642,681	383,960
Asset management for other VIEs	1,950,031		3,413,416		30,941,324	
Total	27,193,036	1,651,248	23,279,284	2,345,972	53,783,879	4,423,188

⁽¹⁾ Represents the carrying amount of equity interests and debt interests held by the Company or guarantees provided by the Company as of December 31, 2005.

⁽²⁾ Structured by third parties other than the Company.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005****12. Loans**

The composition of the loan portfolio as of December 31, 2003, 2004 and 2005 is summarized as follows:

	Korean Won (in millions)		
	2003	2004	2005
Domestic			
Commercial:			
Commercial and industrial	40,641,718	42,444,792	47,232,142
Lease financing	221,822	132,312	75,481
Trade financing	6,921,751	7,073,303	7,171,550
Other commercial ⁽¹⁾	4,254,104	4,270,125	4,726,620
Consumer:			
Mortgage	3,599,209	4,683,175	5,458,067
Other consumer ⁽²⁾	26,758,025	27,618,771	34,906,153
Credit card	3,963,953	2,127,976	2,091,760
Subtotal	86,360,582	88,350,454	101,661,773
Foreign			
Commercial:			
Commercial and industrial	1,884,551	1,729,649	2,316,462
Trade financing	62,820	104,487	75,955
Consumer:			
Other consumer	83,559	304,633	76,476
Subtotal	2,030,930	2,138,769	2,468,893
Gross loans	88,391,512	90,489,223	104,130,666
Deferred origination costs	55,581	35,557	31,055
Less: Unearned income	(26,465)	(13,991)	(6,702)
Less: Allowance for loan and lease losses	(2,833,675)	(1,805,593)	(1,524,536)
Total loans, net ⁽³⁾⁽⁴⁾	85,586,953	88,705,196	102,630,483

⁽¹⁾ Other commercial loans include commercial bills discounted, commercial loans with government funds and overdrafts.

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- (2) Other consumer loans primarily consist of general household loans including personal overdrafts and loans with principal due at maturity.
- (3) The figures above do not include 26,015 million Won and 43,778 million Won of loans classified as loans held for sale at December 31, 2004 and 2005, respectively, which are included in assets held for sale. There were no such loans held for sale at the end of 2003.
- (4) Including pledged loans of 2,224,745 million Won, 459,458 million Won and 399,593 million Won as of December 31, 2003, 2004 and 2005, respectively (see Note 36).

Since March 2004, the Bank Subsidiaries have acted as mortgage loans originator institutions for Korea Housing Finance Corporation (KHFC). Under the Mortgage Loans Sales and Servicing Agreements entered into with KHFC, the Bank Subsidiaries originate mortgage loans, sell those loans to KHFC shortly after their origination, retain the servicing rights for the loans and receive servicing fees in return. KHFC was established on March 1, 2004 in accordance with Korea Housing Finance Corporation Act in order to raise national welfare and contribute to the development of the Korean economy by securitizing mortgage loans, providing housing finance credit guarantees and promoting a stable flow of housing finance on a long-term basis. The Bank Subsidiaries sold mortgage loans with an aggregate principal balance of 204,049 million Won and 417,812 million Won to KHFC

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and recognized 349 million Won and 2,336 million Won of servicing fee income in the years ended December 31, 2004 and 2005, respectively. In relation to these transactions, the Company recorded assets held for sale as of December 31, 2004 and 2005, which consisted of mortgage loans amounting to 26,015 million Won and 43,778 million Won, respectively.

In addition to loans securitized as described in Note 11, the Company sold loans with an aggregate principal balance of 718,546 million Won, 1,193,150 million Won and 1,160,813 million Won in the years ended December 31, 2003, 2004 and 2005, respectively, including the mortgage loans sold as described above. The Company retained no interests in these loans sold. Gains and losses recognized in connection with these sales of loans and subsequently recognized in connection with settlement of loan sales in prior years are presented in Notes 27 and 28. There were no recourse obligations assumed by the Company for the sales of loans in the years ended December 31, 2003, 2004 and 2005.

In the year ended December 31, 2003, the Company received convertible debt securities and marketable equity securities having a fair value of 43,811 million Won and 95,273 million Won, respectively, through restructuring of 15 loans with an aggregate book value of 283,055 million Won. The Company recognized aggregate direct charge-offs of 143,971 million Won related to these transactions in 2003. In the year ended December 31, 2004, the Company received marketable equity securities having a fair value of 50,971 million Won through restructuring of 8 loans with an aggregate book value of 99,198 million Won. The Company recognized aggregate direct charge-offs of 48,227 million Won in relation to these transactions in 2004. In the year ended December 31, 2005, the Company received marketable equity securities having a fair value of 553 million Won through restructuring of 7 loans with an aggregate book value of 1,613 million Won. In 2005, the Company recognized aggregate direct charge-offs of 1,060 million Won with respect to these transactions.

The following table sets forth information about the Company's impaired loans as of December 31, 2003, 2004 and 2005. Impaired loans are those of which the Company believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the loan.

	Korean Won (in millions)		
	2003	2004	2005
Impaired loans with an allowance	2,791,449	2,330,892	2,073,823
Impaired loans without an allowance	595,213	244,951	114,966
Total impaired loans	3,386,662	2,575,843	2,188,789
Allowance for impaired loans	(1,090,668)	(764,300)	(571,073)
Average balance of impaired loans during the year	3,141,853	3,062,115	2,441,753

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<u>Interest income recognized on impaired loans during the year</u> ⁽¹⁾⁽²⁾	113,895	172,363	127,546
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- (1) Had the impaired loans performed in accordance with their original terms, additional interest income of 174,756 million Won, 92,811 million Won and 59,298 million Won would have been recorded in 2003, 2004 and 2005, respectively.
- (2) Of these amounts, 12,701 million Won, 16,653 million Won and 24,599 million Won as of December 31, 2003, 2004 and 2005, respectively, relate to troubled debt restructurings.

As of December 31, 2003, 2004 and 2005, the Company had non-accrual loans, including commercial, consumer and credit card loans, of 4,211,205 million Won, 2,973,139 million Won and 2,523,100 million Won, respectively. Had interest on these loans been accrued, such interest would have amounted to 469,991 million Won, 307,895 million Won and 210,924 million Won for 2003, 2004 and 2005, respectively. Interest income, which is recognized on a cash-basis, related to non-accrual loans for the years ended December 31, 2003, 2004 and 2005 was 235,724 million Won, 149,446 million Won and 109,419 million Won, respectively.

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As discussed in Note 1, economic conditions of the Republic of Korea may continue to have a negative effect on the debtors of the Company. The Company owns investment securities of, and has loans outstanding to, a number of Korean companies that have experienced financial difficulties. The ultimate collectibility of these amounts is subject to a number of factors, including the successful performance of the debtors under various restructuring plans in place or in process of negotiation and their ability to perform on loan and debt obligations given the status of the Korean economy and the potential adverse economic trends or other unfavorable developments. Consequently, it is reasonably possible that adjustments could be made to the reserves for impaired loans and to the carrying amount of investments in the near term in amounts that may be material to the Company's consolidated financial statements.

The changes in the allowance for credit losses for the years ended December 31, 2003, 2004 and 2005 are summarized as follows:

	Korean Won (in millions)			Total
	Loans ⁽¹⁾	Credit-related commitments ⁽²⁾	Repurchase obligations ⁽²⁾⁽⁴⁾	
Allowance at January 1, 2003	3,770,356	527,341	368,605	4,666,302
Provisions for credit losses	2,312,716	201,335	66,893	2,580,944
Charge-offs on repurchased loans			(300,745)	(300,745)
Allowance relating to credit-related commitments transferred to loans	270,736	(270,736)		
Allowance relating to acquisition of Panasia	3,335			3,335
Charge-offs ⁽³⁾	(4,388,461)			(4,388,461)
Recoveries	846,788			846,788
Foreign exchange translation adjustment	18,205	(163)		18,042
Allowance at December 31, 2003	2,833,675	457,777	134,753	3,426,205
Provisions (reversal of provisions) for credit losses	651,654	42,768	(10,053)	684,369
Charge-offs on repurchased loans			(102,857)	(102,857)
Allowance relating to credit-related commitments transferred to loans	274,818	(274,818)		
Charge-offs ⁽³⁾	(2,258,012)			(2,258,012)
Recoveries	322,089			322,089
Foreign exchange translation adjustment	(18,631)			(18,631)
Allowance at December 31, 2004	1,805,593	225,727	21,843	2,053,163
Provisions (reversal of provisions) for credit losses	308,499	(38,917)	(12,165)	257,417
Charge-offs on repurchased loans			(3,993)	(3,993)
Allowance relating to credit-related commitments transferred to loans	58,360	(58,360)		

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Allowance relating to disposal of Woori Securities Co., Ltd.	(15,353)			(15,353)
Charge-offs ⁽³⁾	(848,456)			(848,456)
Recoveries	222,129			222,129
Foreign exchange translation adjustment	(6,236)			(6,236)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Allowance at December 31, 2005	1,524,536	128,450	5,685	1,658,671
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

⁽¹⁾ Loans held for sale are not subject to this reserve process.

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- (2) The allowance for credit-related commitments and the allowance for repurchase obligations are included in Other liabilities.
- (3) When a loan is sold, the related allowance for loan losses is written off at the date of sale. Charge-offs include 1,652,560 million Won, 612,584 million Won and 276,419 million Won of allowance for loan losses written off relating to sale of loans in the year of 2003, 2004 and 2005, respectively.
- (4) When the transferor regains control over the transferred loans sold, the Company re-estimates the value of the repurchased loans based on the discounted cash flow method.

13. Direct Financing Leases

The Company originates direct financing leases on certain machinery, computers and various other equipment for customers in a variety of industries throughout Korea. Income attributable to the leases is initially recorded as unearned income and subsequently recognized as finance income using the effective interest method, over the term of the leases. Residual values are generally guaranteed by the lessee. The terms of the leases are generally from 3 to 7 years. The components of the net investment in direct financing leases as of December 31, 2003, 2004 and 2005, which are included in Loans, are summarized as follows:

	Korean Won (in millions)		
	2003	2004	2005
Gross lease payments receivable	221,822	132,312	75,481
Unearned income	(26,465)	(13,991)	(6,702)
Total	195,357	118,321	68,779

The scheduled maturities of minimum lease payments as of December 31, 2005, expressed as a percentage of the total, were approximately as follows:

Within 12 months	19.63%
13 to 24 months	20.56%
25 to 36 months	56.07%
37 to 48 months	0.94%
After 48 months	2.80%

14. Premises and Equipment, Net

Premises and equipment, net as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Land	1,108,676	1,086,589	1,111,724
Building	909,701	900,379	924,833
Equipment and furniture	720,315	743,455	726,987
Leasehold improvements	116,943	148,649	172,231
Construction in progress	4,743	1,877	716
Capitalized leases	48,677	71,568	57,409
Total	2,909,055	2,952,517	2,993,900
Less: Accumulated depreciation	(758,160)	(843,237)	(934,124)
Premises and equipment, net	2,150,895	2,109,280	2,059,776

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Depreciation expense of premises and equipment for the years ended December 31, 2003, 2004 and 2005 was 187,796 million Won, 196,225 million Won and 169,989 million Won, respectively.

Capitalized leases are principally related to equipment leased for the Company's data processing purposes. Accumulated depreciation on such capitalized leases as of December 31, 2003, 2004 and 2005 amounted to 14,637 million Won, 20,369 million Won and 34,403 million Won, respectively.

15. Goodwill and Other Intangible Assets

Goodwill and other intangible assets as of December 31, 2003, 2004 and 2005 consisted of the following:

	Korean Won (in millions)		
	2003	2004	2005
Goodwill	24,571	21,412	47,989
Core deposit intangible assets, net of accumulated amortization of 792,051 million Won in 2003, 725,588 million Won in 2004 and 745,191 million Won in 2005	103,840	46,702	17,974
Capitalized software costs, net of accumulated amortization of 15,297 million Won in 2003, 37,018 million Won in 2004 and 75,384 million Won in 2005	63,781	159,337	134,964
Other, net of accumulated amortization of 82 million Won in 2003, 7,619 million Won in 2004 and 19,525 million Won in 2005	279	28,344	34,315
Total	192,471	255,795	235,242

The goodwill balances of 24,571 million Won, 21,412 million Won and 47,989 million Won as of December 31, 2003, 2004 and 2005, respectively, was related to the Woori Bank segment resulting from the acquisition of Panasia on September 11, 2003 and the acquisition of South Coast on December 5, 2005, and related to the other segment resulting from the acquisition of LG Investment Trust Management Co., Ltd. (see Note 3).

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Changes in the goodwill balance during the years ended December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	Woori Bank segment	Other segment	Total
Balance as of January 1, 2003			
Goodwill recorded	24,571		24,571
Balance as of December 31, 2003	24,571		24,571
Foreign exchange translation adjustment	(3,159)		(3,159)
Balance as of December 31, 2004	21,412		21,412
Goodwill recorded	3,063	26,196	29,259
Goodwill impaired	(2,050)		(2,050)
Foreign exchange translation adjustment	(632)		(632)
Balance as of December 31, 2005	21,793	26,196	47,989

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

The Company performed annual impairment tests on goodwill and 2,050 million Won of impairment loss was recorded in 2005. No impairment charges were recorded in 2003 and 2004.

There were no indefinite-lived other intangible assets for any of the periods presented. Other intangible assets, which are subject to amortization, primarily include core deposit intangible assets, which were acquired as part of the acquisitions of Peace Bank (renamed Woori Credit Card Co., Ltd. and merged into Woori Bank, see Note 1), Kwangju Bank and Kyongnam Bank on December 29, 2000 and Panasia on September 11, 2003 (see Note 3), and capitalized software costs.

The core deposit intangible assets are amortized over 5 to 10 years, on an accelerated basis. The weighted-average amortization period for the core deposit intangible assets as of December 31, 2005 was approximately 8 years. Capitalized software is being amortized over 4 to 5 years. Amortization of other intangible assets for the years ended December 31, 2003, 2004 and 2005 was as follows:

	Korean Won (in millions)		
	2003	2004	2005
Core deposit intangible assets	67,820	40,760	19,603
Capitalized software costs	10,426	23,897	40,689
Other	82	7,353	7,318
Total	78,328	72,010	67,610

The amortization schedule of core deposit intangible assets, capitalized software costs and miscellaneous intangible assets for the remaining periods is as follows:

	Korean Won (in millions)					Total
	2006	2007	2008	2009	After 2009	
Core deposit intangible assets	15,961	298	298	298	1,119	17,974

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Capitalized software costs	40,862	39,754	32,066	20,173	2,109	134,964
Other	8,606	8,595	8,839	1,927	6,349	34,315

Amortization expense is included in Depreciation and amortization expense.

16. Other Assets

Other assets as of December 31, 2003, 2004 and 2005 consisted of the following:

	Korean Won (in millions)		
	2003	2004	2005
KDIC receivable	502,243	294,039	256,973
Other accounts receivable	416,601	348,137	391,408
Domestic exchange settlements debits	383,320	298,377	471,004
Security deposits	997,105	980,975	991,371
Prepaid expenses	31,567	27,369	60,443
Prepaid corporate income tax	212,288	68,825	7,728
Deferred tax assets, net (see Note 31)		788,575	723,949
Other	138,779	87,266	132,803
Total	2,681,903	2,893,563	3,035,679

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

KDIC receivable is related to assets and liabilities transferred to Woori Investment Bank (merged into Woori Bank, see Note 1) from four bankrupt merchant banks pursuant to a contract arranged between the FSC and Woori Investment Bank. Pursuant to the contract, all of this receivable outstanding as of December 31, 2005 was collected on January 2, 2006.

17. Deposits

Deposits as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)			Weighted average rate paid for 2005
	2003	2004	2005	
Interest bearing deposits:				
Interest bearing demand deposits	22,837,631	20,839,188	23,031,178	0.20%
Savings deposits	10,578,604	8,867,043	12,672,582	2.77%
Certificate of deposit accounts	3,850,630	6,056,511	7,879,896	3.73%
Other time deposits	47,334,385	49,725,161	55,357,560	3.63%
Mutual installment deposits	887,272	855,141	667,720	4.05%
	<u>85,488,522</u>	<u>86,343,044</u>	<u>99,608,936</u>	<u>2.75%</u>
Less: Discount	(6,867)	(3,716)	(10)	
	<u>85,481,655</u>	<u>86,339,328</u>	<u>99,608,926</u>	
Non-interest bearing deposits:				
Non-interest bearing demand deposits	3,520,977	3,713,752	4,537,989	
	<u>89,002,632</u>	<u>90,053,080</u>	<u>104,146,915</u>	<u>2.62%</u>

Deposits with consolidated trust accounts, which were 1,643,433 million Won, 2,029,728 million Won and 1,898,532 million Won, as of December 31, 2003, 2004 and 2005, respectively, are included in interest bearing deposits (see Note 41). Mutual installment deposits include interest bearing accounts offered by the Company, which enable customers to become eligible for mortgage and other consumer loans as well as corporate loans while maintaining an account with the Company. Prior to qualifying for a loan, a customer must make the required monthly deposits to the mutual installment account for a contracted term of less than five years. A customer is not required to fulfill the deposit term prior to requesting a loan from the Company, but loan amounts and terms are not as favorable as those associated with a loan request made after

completing the deposit contract term.

The contractual schedule of maturities of certificate of deposit accounts, other time deposits and mutual installment deposits as of December 31, 2005 was as follows:

	Korean Won (in millions)
Due in 2006	55,814,208
Due in 2007	3,037,861
Due in 2008	799,894
Due in 2009	407,323
Due in 2010	508,432
Thereafter	3,337,458
Gross total	63,905,176
Less: Discount	(10)
	63,905,166

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KDIC provides deposit insurance up to a total of 50 million Won per depositor in each bank pursuant to the Depositor Protection Act for deposits due after January 1, 2001, regardless of the placement date of the deposit.

18. Other Borrowed Funds

A summary of other borrowed funds as of December 31, 2003, 2004 and 2005 is presented below.

	Korean Won (in millions)					
	2003		2004		2005	
	Outstanding balance	Weighted average interest rate	Outstanding balance	Weighted average interest rate	Outstanding balance	Weighted average interest rate
The Holding Company						
Borrowings in local currency			100,000	4.42%	150,000	3.89%
Subsidiaries						
Borrowings from the BOK	1,670,287	2.52%	1,229,815	2.32%	1,466,281	2.00%
Borrowings in foreign currency	3,705,122	1.65%	4,433,110	1.11%	5,576,771	2.42%
Borrowings from trust accounts	1,611,050	3.60%	826,677	2.34%	764,478	3.05%
Other borrowings	2,358,751	4.84%	2,525,157	5.18%	1,951,846	4.43%
Sub total	9,345,210	3.35%	9,014,759	2.53%	9,759,376	2.81%
Total other borrowed funds	9,345,210	3.35%	9,114,759	2.54%	9,909,376	2.82%

Other borrowed funds are defined as borrowed funds with original maturities of less than one year. Certain securities have been pledged as collateral in connection with borrowings from the BOK (see Notes 9 and 36).

19. Secured Borrowings

The Company transferred certain non-performing loans, debt securities and other assets to SPEs, which in turn issued beneficial interests collateralized by such loans, debt securities and other assets. In accordance with SFAS No. 140, these transactions have been accounted for as secured borrowings. As a result, the loans, securities, and other assets collateralizing these borrowings are included in Loans, Trading securities, Available-for-sale securities, or Other assets, respectively, and the beneficial interests issued by the SPEs, which pay interest rates ranging from 7.0% to 60.0% per annum, are included in Secured borrowings.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

A summary of the secured borrowings and relevant collateral as of December 31, 2003 is presented as follows:

		2003					
		Annual interest (%)	Maturity	Secured borrowings	Collateral ⁽¹⁾		
					Loans	Securities	Other
Hanvit 9 th ABS	Senior & subordinated collateralized bond obligation	14.0	2004	5,750		3,000	
LSF Hanvit		15.0	2004~2007	6,857			1,513
CKH Investment		10.0~60.0	2004	9,054	96	7,130	
Hanvit LSP Finance		15.0	2004	5,195	13,527		
Woori Ship Mortgage 1 st ABS		5.9~7.3	2004~2007	125,002	149,462		
Woori Ship Mortgage 2-2 ABS		4.2~5.2	2004~2010	214,200	220,501		
Woori Aircraft Mortgage 1 st		6.4~8.0	2004~2009	28,000	30,636		
Peace 1 st ABS		5.7~15.0	2004~2010	15,989		31,533	
LSF Peace Investment		15.0	2004~2015	6,253	1,964	6	415
Woori Card 1 st ABS		6.8~12.0	2005	230,291	228,734		
Woori More 1 st ABS		15.0	2006	22,300	171,065		
Woori More 2 nd ABS		5.8~15.0	2004~2006	371,800	227,437		
Woori More 3 rd ABS		7.3~15.0	2004~2005	365,900	360,137		
Woori More 4 th ABS		13.4	2007	417,284	293,236		
WCC Consumer		2.3	2008	598,900	527,950		
Kyongun 2 nd ABS		7.8	2004	20,000			10,111
Securities sold under repurchase agreement in Won currency		3.4~4.4	2004	699,238		1,074,948	
Collateralized borrowings in Won currency		7.3~7.5	2005~2007	25,291		25,429	
Securities sold under repurchase agreement in foreign currency		1.6~2.6	2004~2005	957,702		1,104,800	
Collateralized borrowings in foreign currency		0.4~2.0	2004~2006	196,576		221,932	
Gross secured borrowings				4,321,582	2,224,745	2,468,778	12,039
Discount				(293)			
Total secured borrowings, net				4,321,289	2,224,745	2,468,778	12,039

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A summary of the secured borrowings and relevant collateral as of December 31, 2004 is presented as follows:

		2004					
		Annual interest (%)	Maturity	Secured borrowings	Collateral ⁽¹⁾		
					Loans	Securities	Other
Hanvit 9 th ABS	Senior & subordinated collateralized bond obligation	14.0	2005	5,750		2,605	
CKH Investment		10.0~60.0	2005	9,054		11,691	
Woori Ship Mortgage 1 st ABS		6.2~7.3	2005~2007	100,000	81,726		
Woori Ship Mortgage 2-2 ABS		4.6~5.2	2005~2010	209,000	185,407		28,008
Woori Aircraft Mortgage 1 st		6.8~8.0	2005~2009	31,000	27,324		5,971
Peace 1 st ABS		15.0	2010	1,557			
Woori NSC First		4.3	2006	105,000	103,857		
Swan SF		3.0	2009	63,050	61,144		
Securities sold under repurchase agreement in Won currency		3.2~4.1	2005	1,405,768		2,485,170	
Collateralized borrowings in Won currency		4.3	2005~2007	17,291		18,647	
Securities sold under repurchase agreement in foreign currency		1.7	2005	78,285		80,457	
Collateralized borrowings in foreign currency		0.3~2.6	2005~2009	328,260		486,722	
Gross secured borrowings				2,354,015	459,458	3,085,292	33,979
Discount				(1,703)			
Total secured borrowings, net				2,352,312	459,458	3,085,292	33,979

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A summary of the secured borrowings and relevant collateral as of December 31, 2005 is presented as follows:

		Annual interest (%)	Maturity	Secured borrowings	2005		
					Collateral ⁽¹⁾		
					Loans	Securities	Other
Hanvit 9 th ABS	Senior & subordinated collateralized bond obligation	14.0	2006	5,750		1,855	
CKH Investment		10.0~60.0	2006	9,054		2,828	
Woori Ship Mortgage 1 st ABS		7.0~7.3	2006~2007	35,000	40,605		536
Woori Ship Mortgage 2-2 ABS		4.5~5.2	2006~2010	201,000	173,517		2,873
Woori Aircraft Mortgage 1 st		7.1~8.0	2006~2009	27,000	22,052		600
Swan SF		3.7~4.4	2006	176,344	163,419		69,697
Securities sold under repurchase agreement in Won currency		1.3~5.7	2006	1,674,121		1,888,613	
Collateralized borrowings in Won currency		5.1~6.31	2006~2007	90,398		76,118	40,211
Securities sold under repurchase agreement in foreign currency		1.62	2006	3,502		3,772	
Collateralized borrowings in foreign currency		4.8~7.0	2006~2009	335,081		428,205	
Gross secured borrowings				2,557,250	399,593	2,401,391	113,917
Discount				(645)			
Total secured borrowings, net				2,556,605	399,593	2,401,391	113,917

⁽¹⁾ Carrying value

In addition to the above collateral, the SPEs also held cash and cash equivalents and other bank deposits of 744,583 million Won, 44,056 million Won and 2,194 million Won as of December 31, 2003, 2004 and 2005, respectively, which have been collected from the loans, securities and other assets. Those cash and cash equivalents and other bank deposits are required to be used to repay the related borrowings when due and are included in Cash and cash equivalents and Interest bearing deposits in other banks in the consolidated balance sheets.

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

The combined aggregate amount of contractual maturities of all secured borrowings as of December 31, 2005 was as follows:

	<u>Korean Won (in millions)</u>
Due in 2006	2,052,528
Due in 2007	179,454
Due in 2008	89,391
Due in 2009	65,876
Due in 2010	170,001
Thereafter	
	<hr/>
Gross secured borrowings	2,557,250
Less: Discount	(645)
	<hr/>
	2,556,605
	<hr/>

20. Long-Term Debt

The following table is a summary of long-term debt (net of unamortized original issue discount) as of December 31, 2003, 2004 and 2005:

	<u>Korean Won (in millions)</u>				
	<u>Interest</u>	<u>Maturity</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Senior					
Holding Company					
Won currency					
Convertible debenture	0.0%	2006	20,000		
Finance debentures	3.5%~6.1%	2006~2010	2,150,000	2,000,000	2,150,000
			<hr/>	<hr/>	<hr/>
Sub total			2,170,000	2,000,000	2,150,000
			<hr/>	<hr/>	<hr/>
Foreign currency					

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Finance debentures	1.7%~3.2%	2004	347,610		
Convertible debenture	2.0%~2.9%	2005~2006	110,198	63,483	
Sub total			457,808	63,483	
Subsidiaries					
Won currency					
Notes payable to government funds	0.0%~4.5%	2006~2022	1,959,699	2,196,162	2,399,249
Notes payable to Seoul Municipal Government	0.0%~3.9%	2006~2019	596,013	690,504	1,103,481
Notes payable to other municipal government	0.0%~6.0%	2006~2019	705,152	713,031	808,482
Notes payable to Industrial Bank of Korea	2.4%~4.3%	2006~2013	151,000	126,674	67,568
Notes payable to other banks	2.0%~6.5%	2006~2015	408,960	494,647	150,975
Obligations under capital leases	4.5%~6.4%	2006~2009	18,977	50,514	26,729
Finance debentures	1.5%~10.1%	2005~2014	3,767,351	4,287,352	9,786,502
Bonds with warrants	12.5%~15.0%	2004~2049	614,803		
Sub total			8,221,955	8,558,884	14,342,986

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	Korean Won (in millions)				
	Interest	Maturity	2003	2004	2005
Foreign currency					
Notes payable to Ministry of Finance and Economics	2.4%	2013	3,087	2,421	2,089
Notes payable to Industrial Bank of Korea	2.1%~2.6%	2008	34,284	24,104	14,628
Notes payable to KDB	2.0%	2007	177,367	16,037	7,018
Notes payable to other banks	0.0%~9.8%	2006~2008	403,255	395,504	459,410
Floating rate finance debentures	2.8%~4.9%	2007~2010		895,012	451,781
Mid-term note	1.2%~5.4%	2006~2014	1,487,332	616,360	1,824,628
Sub total			2,105,325	1,949,438	2,759,554
Subordinated Subsidiaries					
Won currency					
Finance debentures	5.0%~10.3%	2006~2014	1,370,012	1,540,000	2,017,277
Sub total			1,370,012	1,540,000	2,017,277
Foreign currency					
Finance debentures	4.8%~5.8%	2013~2014	1,257,469	1,590,766	607,800
Sub total			1,257,469	1,590,766	607,800
Gross long-term debt			15,582,569	15,702,571	21,877,617
Less: Discount			(665,756)	(40,966)	(27,923)
			14,916,813	15,661,605	21,849,694

Long-term debt is predominately denominated in Won, U.S. dollars or Japanese Yen with both fixed and floating interest rates. Floating rates are generally determined periodically by formulas based on certain money market rates tied to the six-month London Inter-Bank Offered Rate, which are reset on a monthly, semi-annual or quarterly basis, or the monthly Public Fund Prime Rate published by the Korean government. The weighted-average interest rate for long-term debt was 5.82%, 5.43% and 4.78% as of December 31, 2003, 2004 and 2005, respectively.

The combined aggregate amount of contractual maturities of all long-term debt as of December 31, 2005 was as follows:

	<u>Korean Won (in millions)</u>
Due in 2006	3,514,919
Due in 2007	5,229,396
Due in 2008	6,248,688
Due in 2009	1,584,551
Due in 2010	2,537,656
Thereafter	2,762,407
	<hr/>
Gross long-term debt	21,877,617
Less: Discount	(27,923)
	<hr/>
	21,849,694
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WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005

Bonds with warrants

The Holding Company issued bonds with detachable stock warrants on July 16, 2001. The coupon rate on the bonds with warrants was 5%. The warrant was exercisable from three months following the issuance date. The Holding Company was obligated to issue new common shares upon the requests of the bondholders. The exercise price was 5,000 Won and the warrants were valid from October 17, 2002 to June 16, 2003. The market values of the debt securities and the detachable stock warrants, net of issuance costs and discounts, were 64,724 million Won and 1,163 million Won, respectively, as of July 16, 2001. The market value of the detachable stock warrants at the time of issuance was accounted for as APIC. In 2002 and 2003, all the detachable stock warrants issued by the Holding Company were either exercised or expired and the bonds were redeemed and, thus, no stock warrants were outstanding as of December 31, 2003, 2004 and 2005.

In 1999, the Bank Subsidiaries issued outstanding bonds with warrants. Common stocks of the Bank Subsidiaries are to be issued upon the exercise of the warrants. The exercise prices ranged from 118,483 Won to 150,602 Won per share as of December 31, 2003. No proceeds were either allocated to the value of the stock warrants because the quoted market price per share was substantially lower than the exercise price. 3,699,041 out of 5,287,761 warrants originally granted were outstanding and out-of-the-money as of December 31, 2003. In 2004, all remaining stock warrants issued by the Bank Subsidiaries expired and the bonds were redeemed and, thus, no stock warrants were outstanding as of December 31, 2004 and 2005.

Convertible debentures

In accordance with the Convertible Bond Purchase Agreement (the Agreement) between the Company and Lehman, which was a binding part of the Joint Venture Master Agreement by and between the Company and Lehman, the Company was obligated to issue and sell to Lehman maximum aggregated amounts of US\$ 250 million of a series of zero coupon convertible debentures on the closing of each sale of loans to a joint venture special purpose vehicle (JV SPV), jointly owned by a subsidiary of the Company and a Lehman subsidiary. The Company's investment in the JV SPV was included in Other investment assets as investments in affiliates as of December 31, 2003 and 2004, and was reclassified into Other assets during 2005 (see Note 36).

If the conversion option is not exercised prior to the maturity date because the market price has been below the conversion price, the Company is required to pay the bondholder the interest accrued at the compound annual rate. The Company accrues a liability for such premium over the period from the date of the issuance of the debenture to the maturity date and accounts for the liability as accrued interest payable and interest expense.

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The Company issued convertible debentures in Won and foreign currency during 2003 based on the Agreement and all of these convertible debentures issued were converted during 2004 and 2005.

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Details of the conversion in 2004 were as follows:

Convertible debenture series	Convertible Bond 6-3	Convertible Bond 6-4
Face value	US\$ 39,000,000	20,000 million Won
Issue price	US\$ 39,000,000	20,000 million Won
Conversion date	November 4, 2004 and December 2, 2004	December 21, 2004
Currency	Foreign currency	Won currency
Converted by	Lehman Brothers International Europe	Lehman Brothers International Europe
Number of common stock issued	666,301 shares on November 4, 2004 and 7,995,613 shares on December 2, 2004	3,717,472 shares
Conversion price per share	5,380 Won	5,380 Won
Conversion exchange rate per US\$1	1,194.9 Won	
Increase of capital stock	43,310 million Won	18,587 million Won
Increase of paid-in capital in excess of par value	4,435 million Won	2,451 million Won

Details of the conversion in 2005 were as follows:

Convertible debenture series	Convertible Bond 6-1	Convertible Bond 6-2	Convertible Bond 6-5
Face value	US\$ 36,000,000	US\$ 16,000,000	US\$ 1,000,000
Issue price	US\$ 36,000,000	US\$ 16,000,000	US\$ 1,000,000
Conversion date	March 11, 2005	February 17, 2005	March 11, 2005
Currency	Foreign currency	Foreign currency	Foreign currency
Converted by	Lehman Brothers International Europe	Lehman Brothers International Europe	Lehman Brothers International Europe
Number of common stock issued	5,914,180 shares	3,481,173 shares	164,429 shares
Conversion price per share	7,313 Won	5,588 Won	7,228 Won
Conversion exchange rate per US\$1	1,201.4 Won	1,215.8 Won	1,188.5 Won
Increase of capital stock	29,571 million Won	17,406 million Won	822 million Won
Increase of paid-in capital in excess of par value	9,028 million Won	5,098 million Won	211 million Won

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005****21. Other Liabilities**

Other liabilities as of December 31, 2003, 2004 and 2005 consisted of the following:

	Korean Won (in millions)		
	2003	2004	2005
Accrued severance benefits	219,390	308,171	376,187
Allowance for credit-related commitments	457,777	225,727	128,450
Allowance for repurchase obligations	134,753	21,843	5,685
Accounts payable	186,165	127,692	155,604
Unearned income	100,309	92,313	100,052
Tax withholdings and income tax payable	71,973	76,895	321,197
Security deposits received	143,636	115,021	116,852
Due to agencies	590,466	702,635	892,523
Domestic exchange settlements credits	435,142	274,283	1,505,125
Foreign exchanges	393,685	277,296	340,229
Account for agency business	263,459	207,865	126,354
Other	221,082	431,825	310,350
Total	3,217,837	2,861,566	4,378,608

22. Minority Interest

Minority interest represents the equity for the remaining outstanding voting stock of subsidiaries not owned by the Company (see Note 39). The changes in minority interest in 2003, 2004 and 2005 consisted of minority interest in net income of subsidiaries, minority interest in changes in other comprehensive income of subsidiaries and changes in minority interest resulting from changes in the ownership percentage of the Company in Woori Securities Co., Ltd. (merged with LG Investment & Securities Co., Ltd. and was renamed Woori Investment & Securities Co., Ltd. in 2005), Woori First Private Equity, L.P. and Woori Capital Advisors Asset Management Co., Ltd. (see Note 3).

23. Common Stock

Capital stock

The Company has 2,400 million authorized shares of common stock with 5,000 Won par value, of which 806,015,340 shares were issued and 806,012,790 shares, net of 2,550 shares of treasury stock, were outstanding as of December 31, 2005. 775,504,910 shares of the Company's common stock were issued and outstanding as of December 31, 2003, and 796,455,558 shares were issued and 795,993,011 shares, net of 462,547 shares of treasury stock, were outstanding as of December 31, 2004. The Company's common stock owned by KDIC totaled to 673,458,609 shares (86.84%), 628,458,609 shares (78.91%, not considering the treasury stock) and 628,458,609 shares (77.97%, not considering the treasury stock) as of December 31, 2003, 2004 and 2005, respectively.

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

The changes in the capital stock of the Company in 2003, 2004 and 2005 were as follows:

Description	Number of shares issued	Korean Won (in millions)	
		Capital stock	Paid-in capital in excess of par value
January 1, 2003	767,814,797	3,839,074	58,646
Exercise of warrants during 2003	7,690,113	38,451	(574)
December 31, 2003	775,504,910	3,877,525	58,072
Issue of new shares on June 18, 2004	8,571,262	42,856	13,064
Exercise of conversion rights during 2004	12,379,386	61,897	6,886
December 31, 2004	796,455,558	3,982,278	78,022
Exercise of conversion rights during 2005	9,559,782	47,799	14,337
December 31, 2005	806,015,340	4,030,077	92,359

Treasury stock

Treasury stock is recorded at cost.

The Korean Commercial Law requires companies involved in business combination transactions to obtain the approval of a company's stockholders and to provide an opportunity for dissenting stockholders to exercise appraisal rights. Upon exercise of the appraisal rights, these companies would be required to purchase stock from those stockholders at a predetermined price.

Prior to the acquisition of the minority interests of Woori Securities Co., Ltd. (merged with LG Investment & Securities Co., Ltd. and was renamed Woori Investment & Securities Co., Ltd. in 2005) by the Holding Company in 2004 (see Note 3), Woori Securities Co., Ltd. purchased

7,972,301 shares of its common stock from dissenting stockholders. These shares and other common stock previously purchased and held by Woori Securities Co., Ltd. as its treasury stock were exchanged for the Holding Company's common stock at an exchange ratio of one common share of Woori Securities Co., Ltd. into 0.55 common share of the Holding Company, and became the Company's treasury stock which totaled to 7,298,279 shares. Subsequently, the Company reissued 6,835,732 shares and 459,997 shares of its treasury stock in 2004 and 2005, respectively, and the treasury stock of the Company totaled 2,550 shares as of December 31, 2005.

24. Additional Paid-in Capital

As discussed in Note 1, the amount of 3,778,023 million Won resulting from liabilities in excess of identified assets of the acquired banks, classified as deficit equity and recorded as a reduction of APIC, has been reduced by using the tax benefits resulting from the acquired entity's deductible temporary differences and NOL carryforwards at the acquisition date.

The amounts incurred by KDIC for the purchase of the newly issued shares of Commercial Bank of Korea and Hanil Bank on September 30, 1998 (3,264,200 million Won) have been recorded as additional paid-in capital in the accompanying consolidated financial statements. The effect on additional paid-in-capital from ownership changes of subsidiaries from September 30, 1998 to December 31, 1999 amounts to 1,337,971 million Won increase.

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On December 29 through December 31, 2000, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Credit Card Co., Ltd. received 2,764,400 million Won, 259,000 million Won, 170,400 million Won and 273,000 million Won, respectively, from KDIC, in connection with the purchase by KDIC of newly issued shares of the banks. These amounts have been recorded as additional paid-in capital in the accompanying consolidated financial statements. During 2001, Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Credit Card Co., Ltd. received 1,877,600 million Won, 94,000 million Won, 273,100 million Won and 338,900 million Won, respectively, from KDIC, as additional capital injection. These amounts have been recorded as additional paid-in capital in the accompanying consolidated financial statements.

As an additional structural reform implemented by the government for the merchant banking industry, on November 3, 2000, KDIC established Woori Investment Bank (merged into Woori Bank, see Note 1) to manage the operations of four bankrupt merchant banking corporations and contributed capital of 170,493 million Won, which has been recorded as additional paid-in capital by the Holding Company. On March 24, 2001, KDIC contributed additional capital of 30,913 million Won, which has been recorded as additional paid-in capital.

Upon legal establishment of the Holding Company on March 27, 2001, 3,637,293 million Won of injected capital which had been classified as additional paid-in capital in connection with the purchase by KDIC of newly issued shares of the respective banks was transferred to common stock.

The capital injection was considered taxable income in Korea and was recorded net of the applicable tax effect.

The components of and changes in APIC in 2003, 2004 and 2005 consisted of the following:

	Korean Won (in millions)					
	2003		2004		2005	
	APIC	Deficit equity	APIC	Deficit equity	APIC	Deficit equity
Balance, beginning of year	6,488,088	(2,134,855)	6,514,855	(1,869,134)	6,556,995	(1,569,147)
Issuance of common stock	(574)		13,064			
Exercise of conversion rights			6,886		14,337	
Capital transactions of affiliates	25,955		2,372		(5,595)	
Reduction of deficit equity relating to the use of pre-acquisition NOL carryforwards, etc.		265,721		299,987		6,580

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Stock compensation costs	1,386		1,100		(2,622)	
Reissuance of treasury stock			18,718			
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance, end of year	6,514,855	(1,869,134)	6,556,995	(1,569,147)	6,563,115	(1,562,567)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total		4,645,721		4,987,848		5,000,548
		<u> </u>		<u> </u>		<u> </u>

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Accumulated deficit consisted of the following as of December 31, 2003, 2004 and 2005:

	Korean Won (in millions)		
	2003	2004	2005
Appropriated retained earnings:			
Legal reserve	250,448	421,481	782,213
Other statutory reserves	18,242	16,516	14,188
Accumulated deficit	(5,261,381)	(3,172,883)	(1,844,860)
Total	(4,992,691)	(2,734,886)	(1,048,459)

The General Banking Act requires the Company to appropriate as a legal reserve an amount equal to a minimum of 10% of annual net income of each individual legal entity within the consolidated group of companies until such reserve equals 100% of its paid-in capital. Although the Company as a consolidated group has an aggregate accumulated deficit, a legal reserve has been recorded related to consolidated subsidiaries which have recorded net income in accordance with accounting principles generally accepted in the Republic of Korea (Korean GAAP). This reserve is not available for payment of cash dividends but may be transferred to capital stock or used to reduce an accumulated deficit, if any, by an appropriate resolution of the Company's board of directors.

The Company's branches in Japan and in Vietnam are required to appropriate a statutory reserve. This reserve, included in the other statutory reserves, is used only to reduce any accumulated deficit related to the branches in Japan and Vietnam.

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Comprehensive income includes net income plus transactions and other occurrences that are the result of non-owner changes in equity. For the years ended December 31, 2003, 2004 and 2005, the non-owner equity changes were composed of foreign currency translation adjustments and unrealized holding gains and losses on investment securities. Below are the components of accumulated other comprehensive income and the related tax effects allocated to each component for the years ended December 31, 2003, 2004 and 2005.

	Korean Won (in millions)		
	Foreign currency translation adjustments	Net unrealized holding gains on investment securities	Accumulated other comprehensive income, net of tax
Balance, January 1, 2003	(2,983)	31,148	28,165
Foreign currency translation adjustments, net of tax of 701 million Won	1,911		1,911
Net unrealized holding losses arising on investment securities, net of tax of 8,310 million Won		(22,656)	(22,656)
Reclassification adjustment for losses included in net loss, net of tax of 43,275 million Won		117,979	117,979
Current period change	1,911	95,323	97,234
Balance, December 31, 2003	(1,072)	126,471	125,399
Foreign currency translation adjustments, net of tax of 6,479 million Won	(17,082)		(17,082)
Net unrealized holding gains arising on investment securities, net of tax of 68,885 million Won		181,607	181,607
Reclassification adjustment for gains included in net income, net of tax of 21,751 million Won		(57,344)	(57,344)
Current period change	(17,082)	124,263	107,181
Balance, December 31, 2004	(18,154)	250,734	232,580

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Foreign currency translation adjustments, net of tax of 6,276 million Won	(3,726)		(3,726)
Net unrealized holding gains arising on investment securities, net of tax of 62,811 million Won		165,509	165,509
Reclassification adjustment for gains included in net income, net of tax of 21,131 million Won		(55,444)	(55,444)
	<u>(3,726)</u>	<u>110,065</u>	<u>106,339</u>
Current period change	(3,726)	110,065	106,339
Balance, December 31, 2005	<u>(21,880)</u>	<u>360,799</u>	<u>338,919</u>

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The components of non-interest income for the years ended December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Trust fees, net	45,404	39,508	13,182
Fees and commission income			
From credit cards	465,409	304,816	364,718
From currency transfers	463,497	482,623	619,219
From letters of credit	63,215	66,517	84,594
Other	94,689	224,558	134,200
Sub total	1,086,810	1,078,514	1,202,731
Trading revenue, net			
Debt securities	(45,532)	107,069	(44,582)
Equity securities	(6,826)	11,048	121,978
Beneficiary certificates	9,391	6,151	10,458
Foreign exchange spot contracts	221,200	234,914	18,929
Derivative instruments	(66,869)	76,625	149,516
Sub total	111,364	435,807	256,299
Investment securities gain (loss), net ⁽¹⁾			
Debt securities	(115,731)	(22,677)	(1,470)
Equity securities	(11,379)	107,277	244,647
Beneficiary certificates	44,315	43,341	998
Sub total	(82,795)	127,941	244,175
Other non-interest income			
Gain on disposal of premises and equipment	18,451	20,064	3,793
Gain on sales of loans	69,334	1,059	1

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Other	186,330	250,064	195,750
	<u> </u>	<u> </u>	<u> </u>
Sub total	274,115	271,187	199,544
	<u> </u>	<u> </u>	<u> </u>
Total non-interest income	1,434,898	1,952,957	1,915,931
	<u> </u>	<u> </u>	<u> </u>

(1) Impairment losses on investment securities for the years ended December 31, 2003, 2004 and 2005 were 209,370 million Won, 130,036 million Won and 55,278 million Won, respectively.

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The components of non-interest expense for the years ended December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Salaries and employee benefits			
Salaries and other benefits	770,756	867,686	887,820
Provision for accrued severance benefits	94,661	110,699	120,799
Sub total	865,417	978,385	1,008,619
Depreciation and amortization			
Depreciation on premises and equipment	187,796	196,225	169,989
Amortization on other intangible assets	78,328	72,010	67,610
Sub total	266,124	268,235	237,599
Other administrative expenses	742,191	778,034	826,750
Fees and commissions			
Paid on remittances and collections	211,226	129,525	110,335
Paid on letters of credit	11,806	14,050	16,168
Paid on credit cards	112,650	98,976	87,336
Sub total	335,682	242,551	213,839
Other non-interest expense			
Loss on disposal of premises and equipment	1,933	6,929	5,718
Loss on sales of loans	29,540	12,657	44,824
Other	395,545	522,553	595,937
Sub total	427,018	542,139	646,479
Total non-interest expense	2,636,432	2,809,344	2,933,286

Other administrative expenses consist mainly of rent, outside service fees, and advertisement.

29. Stock-Based Compensation

On December 4, 2002, the Company granted stock compensation awards to 62 directors of the Holding Company and its subsidiaries. The exercise price of 60 percent of the total number of awards granted (Type A awards) had been subject to determination based on the Korean banking industry stock index and was eventually determined at 11,921 Won per share in 2005. For the remaining 40 percent of the total number of awards granted (Type B awards), of which the exercise price is 6,800 Won per share, the number of awards to be vested was dependent on the Company's management performance target levels; non-performing loans ratio, capital adequacy ratio and net income to total assets ratio by 15%, 15% and 10%, respectively. In 2005, the related performance targets were evaluated and 420,000 shares of the Type B awards granted and outstanding were vested. The stock compensation awards are exercisable during a three-year period beginning after three years from the grant date.

The original terms of the awards at the grant date were that upon exercise of the awards, the Company had the option either to issue new shares or shares held as treasury stock, or to pay the difference between the market

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price and the exercise price in cash or with treasury stock. In 2003 and 2004, these awards were regarded as awards that call for settlement by issuing common stock, and the compensation expense was computed using the fair value method based on the Black-Scholes option pricing model and credited to APIC. However, by the resolution of the board of directors of the Holding Company on November 23, 2005, the original terms were modified. The awards granted by the Company and outstanding as of December 31, 2005 may only be settled upon exercise by paying the difference between the market price and the exercise price in cash in accordance with the modified terms. Accordingly, the amount previously recorded as APIC was reclassified to accrued expense, and incremental compensation expense was calculated using the intrinsic value method and credited to accrued expense in 2005.

Information about stock compensation awards outstanding as of December 31, 2005 is as follows:

Description	Type A awards	Type B awards
Settlement method	Cash settlement	Cash settlement
Exercise price	11,921 Won	6,800 Won
Granted	936,000 shares	624,000 shares
Exercised	174,000 shares	122,250 shares
Cancelled ⁽¹⁾	216,000 shares	141,000 shares
Forfeited ⁽²⁾		63,000 shares
Outstanding as of December 31, 2005	546,000 shares	297,750 shares

⁽¹⁾ Awards granted to directors who retired before their awards vested were cancelled by the resolution of the board of the directors of the Company.

⁽²⁾ 63,000 shares of Type B awards were forfeited in 2005 as a result of evaluation of the related performance targets.

Changes in the number of stock compensation awards outstanding in the years ended December 31, 2003, 2004 and 2005 were as follows:

Description	2003		2004		2005	
	Number of stock compensation awards	Weighted average exercise price per share (Won)	Number of stock compensation awards	Weighted average exercise price per share (Won)	Number of stock compensation awards	Weighted average exercise price per share (Won)

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Awards outstanding, beginning of year	1,560,000	9,873	1,350,000	9,873	1,260,000	9,873
Exercised					(296,250)	9,808
Cancelled ⁽¹⁾	(210,000)	9,873	(90,000)	9,873	(57,000)	9,873
Forfeited					(63,000)	6,800
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Awards outstanding, end of year	1,350,000	9,873	1,260,000	9,873	843,750	10,114
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Exercisable at year end					843,750	10,114
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

⁽¹⁾ Awards granted to directors who retired before their awards vested were cancelled by the resolution of the board of the directors of the Company.

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Compensation expenses for the years ended December 31, 2003, 2004 and 2005 were as follows:

For the year ended December 31,	Korean Won (in millions)		
	Type A awards	Type B awards	Total
2003	924	462	1,386
2004	514	586	1,100
2005	3,753	4,265	8,018

For the purpose of computing the compensation expenses for the years ended December 31, 2003 and 2004, the Company estimated the fair value of stock compensation awards using the Black-Scholes option pricing model at the grant date. The model requires the use of numerous assumptions, many of which are highly subjective in nature. The assumptions used for the purpose of estimating the fair value of stock compensation awards at the grant date were as follows:

Description	Application
Discount rate	Yield (5.70%) of treasury bond, which has the same residual maturity as the expected exercise period, as of December 4, 2002
Expected exercising period	4.5 year (average holding period)
Expected dividend income ratio	0.00%
Expected forfeiture ratio	0.00%
Expected volatility of stock price	61.71%, which is the annualized standard deviation of expected stock investment yield based on continuous compounded method
Cross-volatility of the Korean banking industry stock index and the Company's stock price	62.66%, which is the annualized standard deviation of expected stock investment yield based on continuous compounded method
Exercise price	6,800 Won per share
Fair value of Type A awards	2,106 Won per share
Fair value of Type B awards	2,257 Won per share

30. Regulatory Requirements*Capital ratio*

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In conformity with the Financial Supervisory Service (FSS) and Basel Committee on Banking Regulations and Supervisory Practices/Bank for International Settlements (BIS) Guidelines, each of the Bank Subsidiaries applied BIS risk-adjusted capital ratios to evaluate its capital adequacy. Total capital consists of two tiers of capital. Tier 1 Capital includes common shareholders' equity, retained profits, legal reserves, and minority interest, less intangible assets and other adjustments. Tier 2 Capital consists of the allowance for credit losses up to 1.25 percent of risk-weighted assets, limited amounts of subordinated debt, and other adjustments. Banking organizations engaged in international banking are required to maintain a minimum 8% total risk-based capital ratio, the ratio of total risk-adjusted capital divided by total risk-weighted assets, including a Tier 1 capital ratio of at least 4%. The capital ratios are calculated based on each of the Bank Subsidiaries' consolidated balance sheets prepared in accordance with Korean GAAP. In the event any bank did not maintain a consolidated BIS ratio of 8%, it is subject to corrective actions recommended by the FSS based on the actual financial position and capital ratio. Continued non-compliance with these standards could potentially result in the closure of non-compliant banks.

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Management of the Company believes that as of December 31, 2005, each of the Bank Subsidiaries met all capital adequacy requirements to which it is subject. Events beyond management's control, such as fluctuations in interest rates or a downturn in the economy in areas in which the Bank Subsidiaries' loans or securities are concentrated, could adversely affect future earnings and consequently, each of the Bank Subsidiaries' abilities to meet its future capital requirements.

The following capital ratios are calculated in accordance with the FSS guidelines, which are materially consistent with BIS guidelines, and each of the Bank Subsidiaries' consolidated financial statements prepared in accordance with Korean GAAP, which may vary in certain significant respects from U.S. GAAP, as of December 31:

	Korean Won (in millions)		
	2003		
	Woori Bank	Kyongnam Bank	Kwangju Bank
Tier 1 Capital	4,769,574	454,653	315,755
Tier 2 Capital	3,123,707	235,366	229,864
Less: Investment in non-consolidated equity investees ⁽¹⁾	(42,199)	(2,844)	
Total risk-adjusted capital	7,851,082	687,175	545,619
Total risk-weighted assets	69,582,498	5,879,102	5,090,368
Tier 1 capital ratio	6.85%	7.73%	6.20%
Tier 2 capital ratio	4.49%	4.00%	4.52%
Total risk-based capital ratio	11.28%	11.69%	10.72%

	Korean Won (in millions)		
	2004		
	Woori Bank	Kyongnam Bank	Kwangju Bank
Tier 1 Capital	5,952,733	535,590	392,466
Tier 2 Capital	3,386,139	196,951	276,235

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Less: Investment in non-consolidated equity investees ⁽¹⁾	(44,863)	(3,467)	
Total risk-adjusted capital	9,294,009	729,074	668,701
Total risk-weighted assets	74,477,162	6,429,313	5,664,441
Tier 1 capital ratio	7.99%	8.33%	6.93%
Tier 2 capital ratio	4.55%	3.06%	4.88%
Total risk-based capital ratio	12.48%	11.34%	11.81%

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	Korean Won (in millions)		
	2005		
	Woori Bank	Kyongnam Bank	Kwangju Bank
Tier 1 Capital	7,252,980	606,429	500,572
Tier 2 Capital	3,278,279	217,926	290,774
Less: Investment in non-consolidated equity investees ⁽¹⁾	(82,843)	(3,773)	
Total risk-adjusted capital	10,448,416	820,582	791,346
Total risk-weighted assets	89,143,985	7,747,227	6,823,624
Tier 1 capital ratio	8.14%	7.83%	7.34%
Tier 2 capital ratio	3.68%	2.81%	4.26%
Total risk-based capital ratio	11.72%	10.59%	11.60%

⁽¹⁾ Investment in non-consolidated equity investees engaged in banking and financial activities are deducted from total capital, but not deducted directly from Tier 1 and Tier 2 pursuant to the guidelines of the FSS.

Effectively January 1, 2002, in addition to the existing capital ratio calculations, certain banks in Korea are required to report to the FSS an alternative set of capital ratios, taking into account market risk from equity securities, foreign exchange and derivative instruments. Among the Bank Subsidiaries, Woori Bank is subject to the new reporting requirements, which are covered under the same existing minimum capital adequacy ratios.

Capital ratios of Woori Bank in accordance with the new reporting requirements and Woori Bank's consolidated financial statements prepared in accordance with Korean GAAP, which may vary in certain significant respects from U.S. GAAP, as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Tier 1 Capital	4,769,574	5,952,733	7,252,980
Tier 2 Capital ⁽¹⁾	3,081,508	3,341,276	3,195,436

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Total risk-adjusted capital	7,851,082	9,294,009	10,448,416
Risk-weighted assets for credit risk	68,613,534	72,915,453	87,152,177
Risk-weighted assets for market risk	1,304,213	3,262,700	2,556,288
Total risk-weighted assets	69,917,747	76,178,153	89,708,465
Tier 1 capital ratio	6.82%	7.81%	8.09%
Tier 2 capital ratio	4.41%	4.39%	3.56%
Total risk-based capital ratio	11.23%	12.20%	11.65%

(1) Investment in non-consolidated equity investees engaged in banking and financial activities are directly deducted from Tier 2 pursuant to the guidelines of the FSS.

The General Banking Act provides for a minimum paid-in capital of 100 billion Won for nationwide banks and 25 billion Won for regional banks.

Memoranda of Understanding between KDIC and Woori Subsidiaries

As a condition of the capital contributions and injections that were executed and made by KDIC into Woori Subsidiaries, each of Woori Subsidiaries entered into an Execution of Business Normalization Plan

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Memorandum of Understanding (MOU) with KDIC which also includes a business normalization plan, required execution matters and letter of undertaking as attachments. In the case of Woori Bank, the MOU entered into on December 30, 2000, superseded an MOU which was originally entered into with the FSC and KDIC on January 22, 1999. With the exception of specific targets set forth therein, the terms and conditions of the Execution of Business Normalization Plan MOU that applies to each subsidiary are substantially identical and primarily deal with each subsidiary's obligations to implement its business normalization plan, which is a two-year plan renewed every two years until the MOU terminates, that was prepared by each subsidiary and approved by KDIC. Among Woori Subsidiaries, Woori Bank, Kyongnam Bank and Kwangju Bank were subject to MOUs entered into with KDIC as of December 31, 2005. Woori Investment Bank and Woori Credit Card Co., Ltd., which had formerly entered into MOUs with KDIC, were merged into Woori Bank in 2003 and 2004, respectively (see Note 1), and the targets set forth in the MOU applying to Woori Bank were adjusted accordingly to reflect such mergers.

In the event that KDIC determines that a subsidiary has failed to implement its business normalization plan or to meet financial ratio targets, KDIC may impose sanctions on directors as well as employees ranging from warnings and reduction of wages to suspension or termination of employment. KDIC may also order the subsidiary, among other things, to increase or reduce its capital or dispose of its assets, to downsize, dispose, acquire or consolidate branches or subsidiaries, to suspend or transfer a part of its operations, or to order a merger or inclusion in a holding company. In addition, Woori Subsidiaries subject to MOUs entered into with KDIC are required to take all actions necessary (including making dividend payments) to enable the Holding Company to return to KDIC such public funds injected by KDIC into Woori Subsidiaries to the extent that such actions would not cause a materially adverse effect on the normalization of their business operations as contemplated by the MOUs. Management has considered these terms of the MOUs and believes that the conditions which would result in the return to KDIC of such public funds is solely within the control of the Holding Company and therefore, capital contributions from KDIC are reflected as permanent equity in the accompanying consolidated financial statements. Each of the MOUs also provides a termination clause under which the MOU is terminated upon KDIC losing its status as the largest shareholder of the Holding Company.

Each of Woori Subsidiaries subject to MOUs entered into with KDIC has prepared and renewed every two years a business normalization plan that was approved by KDIC, which includes profitability and financial ratio targets, recapitalization goals and deadlines, econometric models, plans to dispose of their total credits classified as substandard or below (NPLs), cost reduction initiatives (disposal of low return-generating fixed assets, downsizing, and others), future management and business strategies (integration, risk management, compliance, and others) and other restructuring plans. The required execution matters set forth the following six financial ratio targets that need to be met by Woori Bank, Kyongnam Bank and Kwangju Bank on a quarterly basis; the capital adequacy ratio, return on total assets, expense to revenue ratio (administrative and general expenses/adjusted operating income), operating income per employee (adjusted operating income/number of employees), NPL ratio (total credits classified as substandard or below/total credits) and net NPL ratio (total credits classified as substandard or below net of allowances for possible loan losses/total credits net of allowances for possible loan losses).

As of December 31, 2003, only Woori Bank met all of these ratio targets. Accordingly, upon a notification from KDIC, each of Kyongnam Bank and Kwangju Bank devised and reported to KDIC a plan to meet target return on total assets, which included a plan to improve profitability, and the plans were approved by KDIC. Woori Credit Card Co., Ltd. was notified by KDIC that it must not improve fringe benefits for employees, which would increase expenses including salaries, and must pay special attention to seamless consummation of the merger with Woori Bank. As of December 31, 2004 and 2005, all of Woori Subsidiaries subject to MOUs entered into with KDIC met all the financial ratio targets set forth in the MOUs.

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MOU between KDIC and the Holding Company

To allow the Holding Company to establish a clear management plan and effect that plan in order to ensure return of the public funds to KDIC, the Holding Company entered into an Execution of Business Plan MOU with KDIC on July 2, 2001, which also includes a business plan, financial ratio targets and a letter of undertaking as attachments.

In the event that KDIC determines that the Holding Company has failed to perform its obligations under the MOU between KDIC and the Holding Company, KDIC may impose sanctions on directors as well as employees of the Holding Company ranging from warnings and reduction of wages to suspension or termination of employment. If necessary, KDIC may also order the Holding Company to take remedial measures against Woori Subsidiaries. In addition, under its MOU with KDIC, the Holding Company is required to take all actions necessary (including making dividend payments and share buybacks) to return to KDIC such public funds injected by KDIC into the Company to the extent that such actions would not cause a materially adverse effect on the normalization of the Holding Company's business operations as contemplated by the MOU. The MOU is terminated upon KDIC losing its status as the largest shareholder of the Holding Company.

The Holding Company has prepared and renewed every two years a business plan that was approved by KDIC, which sets forth the basis for the Holding Company to manage the normalization and integration of its subsidiaries' operations as well as return of the public funds that have been injected into its subsidiaries. As stated above, the MOU sets financial ratio targets that need to be met by the Holding Company on a quarterly basis, which are the capital ratio, return on total assets, expense to revenue ratio, operating income per employee, the Holding Company expense ratio (the Holding Company's expenses/adjusted operating income of Woori Subsidiaries) and NPL ratio.

In addition, as required under Article 6 of the Execution of Business Plan MOU entered into between KDIC and the Holding Company, the Holding Company entered into a Management of Execution of Business Plan MOU with each Woori Subsidiary in July 2001, which also includes financial ratio targets and a business initiative plan. With the exception of various financial ratio targets specific to each Woori Subsidiary, the terms and conditions of the Management of Execution of Business Plan MOU that apply to each Woori Subsidiary are substantially identical and primarily aim to define the respective roles of the Holding Company and each Woori Subsidiary within the Company, and the scope of the Holding Company's rights vis-à-vis each Woori Subsidiary and obligations of each Woori Subsidiary vis-à-vis the Holding Company. The specified financial ratio targets that need to be met by each Woori Subsidiary are identical to the financial ratio targets provided for in the Execution of Business Normalization Plan MOU that each of them entered into with KDIC.

As of December 31, 2003, the Holding Company failed to meet target return on total assets. Upon such failures to meet financial ratio targets, the Holding Company was notified by KDIC that it must not improve fringe benefits for employees, which would increase expenses including salaries, and devised and reported to KDIC a plan to meet those financial ratio targets which was approved by KDIC. As of December 31, 2004 and 2005, the Holding Company met all the financial ratio targets set forth in the MOU.

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The components of income tax expense (benefit) for the years ended December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Current:			
Domestic	11,297	118,956	314,778
Foreign	12,693	10,671	13,200
Sub total	<u>23,990</u>	<u>129,627</u>	<u>327,978</u>
Deferred:			
Domestic	229,576	(521,458)	38,495
Foreign	478	(324)	(817)
Sub total	<u>230,054</u>	<u>(521,782)</u>	<u>37,678</u>
Total income tax expense (benefit)	<u>254,044</u>	<u>(392,155)</u>	<u>365,656</u>

The tax effects of unrealized gains and losses on investment securities and foreign currency translation are recorded directly in stockholders equity as a component of Accumulated other comprehensive income, net of tax.

Income tax is calculated for each individual entity in the Company. As a result, losses incurred by subsidiaries cannot be offset against profits earned by any other profitable company. The tax on the operating profit differs from the theoretical amount that would arise at the basic tax rate of Korea as follows:

Korean Won (in millions)

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	<u>2003</u>	<u>2004</u>	<u>2005</u>
Income (loss) before income tax expense (benefit) and minority interest	(414,286)	1,881,746	2,178,217
Tax calculated at statutory tax rate ⁽¹⁾	(123,043)	558,879	599,010
Income not taxable for tax purposes	(17,961)	(42,738)	(53,933)
Expense not deductible for tax purposes	9,423	88,538	48,958
Increase (decrease) in valuation allowance affecting income tax expenses	395,311	(1,023,294)	(243,821)
Other	(9,686)	26,460	15,442
	<u> </u>	<u> </u>	<u> </u>
Income tax expense (benefit)	254,044	(392,155)	365,656
	<u> </u>	<u> </u>	<u> </u>

⁽¹⁾ Statutory tax rates are 29.7% for income earned in the years ended December 31, 2003 and 2004, and 27.5% for income earned in the year ended December 31, 2005.

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The tax effects of temporary differences and NOL that gave rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Deferred tax assets:			
Allowance for loan losses	437,292	234,434	159,996
Allowance for credit-related commitments	102,240	50,351	28,432
Valuation of trading securities	1,570	2,205	1,329
Valuation of available-for-sale securities	588,702	566,660	491,457
Derivatives valuation	16,239	335,950	3,136
Premises and equipment	44,244	24,588	26,780
Other temporary differences	92,438	77,329	95,879
NOL	992,130	665,707	488,101
	<u>2,274,855</u>	<u>1,957,224</u>	<u>1,295,110</u>
Less: Valuation allowance	(2,052,565)	(603,838)	(319,336)
	<u>222,290</u>	<u>1,353,386</u>	<u>975,774</u>
Deferred tax liabilities:			
Interest income accrual	(75,547)	(37,311)	(35,897)
Valuation of trading securities	(15,987)	(70,660)	(54,663)
Valuation of available-for-sale securities	(51,614)	(28,540)	(20,033)
Derivatives valuation	(24,583)	(317,968)	(3,479)
Other temporary differences	(6,994)	(22,112)	(14,129)
	<u>(174,725)</u>	<u>(476,591)</u>	<u>(128,201)</u>
Deferred tax liabilities excluding other comprehensive income related deferred tax liabilities	(174,725)	(476,591)	(128,201)
	<u>(47,565)</u>	<u>(88,220)</u>	<u>(123,624)</u>
Gross deferred tax liabilities	(222,290)	(564,811)	(251,825)
	<u>(222,290)</u>	<u>(564,811)</u>	<u>(251,825)</u>
Net deferred tax assets		788,575	723,949
		<u>788,575</u>	<u>723,949</u>

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The changes in the valuation allowance in 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Beginning of the year	2,788,623	2,052,565	603,838
Affecting deficit equity	(265,721)	(299,987)	(6,580)
Affecting core deposit intangible assets		(15,965)	(9,048)
Extinguishment of NOL carryforwards ⁽¹⁾	(701,443)	(109,481)	(25,053)
Change in statutory tax rate ⁽²⁾	(164,205)		
Affecting income tax expenses	395,311	(1,023,294)	(243,821)
End of the year	2,052,565	603,838	319,336

⁽¹⁾ Extinguishment of NOL carryforwards of Woori Investment Bank and Woori Credit Card Co., Ltd. due to their merger into Woori Bank in 2003 and in 2004, respectively (see Notes 1 and 40), and expiration of NOL carryforwards of Kwangju Bank in 2005

⁽²⁾ Statutory tax rate for income earned after December 31, 2004 is enacted to change to 27.5% from 29.7%.

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The Company established the valuation allowance in connection with four separate acquisitions of Woori Bank, Peace Bank (renamed Woori Credit Card Co., Ltd. and merged into Woori Bank, see Note 1), Kwangju Bank and Kyongnam Bank that occurred in 1998 and 2000.

The ability to utilize the deferred tax assets recorded in connection with these acquisitions is subject to a number of limitations. Among these limitations is the restriction that NOL carryforwards and other attributes can only be used against income generated by the acquired subsidiaries. Limitations are also placed on the amount of NOLs utilized during a specified period. The requirement that the Company file separate tax returns placed further limitations on the ability to utilize the deferred tax assets. The prior operating history of the four acquired entities did not provide adequate assurance to enable management to conclude at the time of the acquisition that it was more likely than not that the deferred tax assets would be realized.

During the years 2001 through 2005 to the extent that certain of the deferred tax assets were realized, the valuation allowances were reduced and recorded as a reduction of deficit equity (see Note 24). As of December 31, 2003, management believed it was more likely than not that certain subsidiaries would not generate sufficient profits to offset their tax losses and temporary differences. The Company's net deferred tax assets are based on the expectation of future taxable income and utilization of tax planning strategies. Based on these factors, management believes it is more likely than not that the Company will realize net deferred tax assets of 788,575 million Won and 723,949 million Won as of December 31, 2004 and 2005.

In 2004, based on management's analysis, it was determined that the majority of the remaining valuation allowances were no longer needed. The tax benefits related to the reversal of the valuation allowance in connection with the acquisition of Woori Bank, due to the utilization of pre-acquisition NOL carryforwards and deductible temporary differences has been reflected as a reduction of deficit equity. Deficit equity and core deposit intangible assets were credited to reverse valuation allowances established in connection with the acquisition of Kyongnam Bank. Deficit equity was credited to reverse valuation allowances established in connection with the acquisition of Kwangju Bank. Additionally, in 2005, deficit equity and core deposit intangible assets were credited to reverse valuation allowances established in connection with the acquisition of Kwangju Bank (see Note 24).

As of December 31, 2005, the Company has NOL carryforwards totaling 1,774,911 million Won that expire from 2006 to 2010. The valuation allowance recorded by the Company at December 31, 2005 mostly represents the NOL carryforwards which are more likely than not to expire unutilized.

32. Earnings Per Share

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Basic EPS are calculated by dividing the net income (loss) applicable to common shares outstanding by the weighted average number of common shares deemed to be outstanding for the period. Diluted EPS is computed in a manner consistent with that of basic EPS while giving effect to all potentially dilutive common shares that were outstanding during the period, including stock compensation awards, bonds with detachable stock warrants and convertible debentures. Where the effect of this exercise or conversion would have been dilutive, net income available to common stockholders is adjusted by the applicable expenses on the potentially dilutive instruments. The adjusted net income is divided by the weighted average number of common shares issued and outstanding for each period plus amounts representing the dilution resulting from the exercise of the Company's stock compensation awards, bonds with detachable stock warrants and the conversion of convertible debentures.

In 2003, bonds with detachable stock warrants, which amounted to 614,803 million Won as of December 31, 2003, were excluded from the computation of diluted EPS due to their anti-dilutive effect since the

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average quoted prices of the Company in 2003 were lower than the exercise price of detachable stock warrants (see Note 20). The total number of potential shares to be issued as of December 31, 2003, assuming that all stock warrants were exercised, was 3,699,041 shares. In 2003, 2004 and 2005, stock compensation awards were excluded from the computation of diluted EPS due to their anti-dilutive effect. The total numbers of potential shares to be issued as of December 31, 2003, 2004 and 2005, assuming that all stock options were vested and exercised, were 1,350,000 shares, 1,260,000 shares and 843,750 shares, respectively. Whereas convertible debentures were included in the computation of diluted EPS in 2004 and 2005, convertible debentures amounting to 130,198 million Won as of December 31, 2003 were excluded from the computation of diluted EPS in 2003 due to their anti-dilutive effect. The total number of potential shares to be issued as of December 31, 2003, assuming that all convertible debentures were exercised, was 21,939,168 shares.

The following table is a summary of the computation of EPS for the years ended December 31, 2003, 2004 and 2005:

	Korean Won		
	(In millions of Won, except per share amount)		
	2003	2004	2005
Basic income (loss) per share:			
Income (loss) before extraordinary item	(672,334)	2,272,627	1,805,895
Extraordinary item		62,728	
Net income (loss)	(672,334)	2,335,355	1,805,895
Weighted average number of common shares outstanding (shares in thousands)	771,724	778,167	804,389
Basic income (loss) per share before extraordinary item	(871)	2,920	2,245
Basic income per share from extraordinary item		81	
Basic net income (loss) per share	(871)	3,001	2,245
Diluted income (loss) per share:			
Income (loss) before extraordinary item	(672,334)	2,272,627	1,805,895
Plus: expense related to convertible debentures, net of tax		3,354	206
Income (loss) before extraordinary item for purpose of computing diluted income per share	(672,334)	2,275,981	1,806,101
Extraordinary item		62,728	
Net income (loss)	(672,334)	2,338,709	1,806,101
Weighted average number of common shares outstanding (shares in thousands)	771,724	778,167	804,389

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Dilutive effect of convertible debentures (shares in thousands)		21,066	1,477
Weighted average number of common shares outstanding assuming dilution (shares in thousands)	771,724	799,233	805,866
Diluted income (loss) per share before extraordinary item	(871)	2,848	2,241
Diluted income per share from extraordinary item		78	
Diluted net income (loss) per share	(871)	2,926	2,241

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Employees and directors with one or more years of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Under the Korean National Pension Fund Law, the Company was required to pay a certain percentage of employee severance benefits to the National Pension Fund prior to April 1999. The Company has no additional liability once the amount has been contributed, thus the Company deducts contributions made to the National Pension Fund from accrued employee severance plan obligations.

The Company records the vested benefit obligation at the balance sheet date assuming all employees were to terminate their employment as of that date in accordance with EITF Issue No. 88-1, Determination of Vested Benefit Obligation for a Defined Benefit Pension Plan. Such vested benefit obligation is based on the severance payment due on termination as determined under Korean law and does not take into account future compensation increase or discount rate assumptions. The change in the vested benefit obligation during the year is recorded as the current year's severance expense. The severance benefits program in the Republic of Korea is similar to a defined benefit plan in the United States. Generally, in the United States, plan assets are maintained by an independent trustee and therefore, the benefit obligation is recorded net of plan assets. In Korea, the Company makes deposits for severance payments with Korean insurance companies (see Note 5), however, such deposits do not meet the definition of plan assets as defined under U.S. GAAP and are, therefore, recorded in the consolidated financial statements of the Company.

Accrued employee severance plan obligations included in Other liabilities as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Balance as of January 1,	134,116	219,826	308,530
Severance plan expense	94,661	110,699	120,799
Plan payments	(8,951)	(21,995)	(36,550)
Other ⁽¹⁾			(16,489)
Balance as of December 31,	219,826	308,530	376,290
Contribution to national pension fund	(436)	(359)	(103)
	219,390	308,171	376,187

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⁽¹⁾ Represents decrease due to the merger of Woori Securities Co., Ltd. into LG Investment & Securities Co., Ltd. (see Note 3).

The Company expects to make the following future severance payments to its employees upon their normal retirement age:

	Korean Won (in millions)
Expected payments in 2006	48
Expected payments in 2007	169
Expected payments in 2008	83
Expected payments in 2009	256
Expected payments in 2010	3,068
Expected payments from 2011 to 2015	23,935

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The above amounts were determined based on the employees' current salary rates and the number of service years that will be accumulated upon their retirement dates. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

Under limited circumstances, employees can withdraw their accumulated unpaid severance amounts before their termination of employment (interim severance payment). Such withdrawal was included in the amount of plan payments. Total interim severance payments made by the Company were 1,030 million Won, 2,521 million Won and 12,477 million Won in 2003, 2004 and 2005, respectively.

In addition to regular termination benefits, the Company paid special termination benefits of 25,481 million Won, 21,095 million Won and 65,286 million Won for the years ended December 31, 2003, 2004 and 2005, respectively, to 355 employees, 211 employees and 419 employees who accepted early retirement.

34. Fair Value of Financial Instruments

The fair value of financial instruments is defined as the value at which positions could be closed out or sold in a transaction with a willing and knowledgeable third party. Fair value is based on quoted market prices, where available. However, in many instances, there are no quoted market prices for the Company's various financial instruments. As a result, the fair values presented are estimates derived using present value or other valuation techniques and may not be indicative of net realizable value. In addition, the calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values. Certain financial instruments and all non-financial instruments are excluded from the scope of SFAS No. 107, Disclosures about Fair Value of Financial Instruments. Accordingly, the fair value disclosures required by SFAS No. 107 provide only a partial estimate of the fair value of the Company.

Fair values among financial institutions are not comparable due to the wide range of permitted valuation techniques and numerous estimates that must be made. This lack of objective valuation standards introduces a great degree of subjectivity to these derived or estimated fair values. Therefore, readers are cautioned in using this information for purposes of evaluating the financial condition of the Company in comparison with other financial institutions.

The following section summarizes the methods and assumptions used by the Company, by financial instrument, in estimating fair value:

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Assets and liabilities for which fair value approximates carrying value: The carrying values of certain financial assets and liabilities reported at cost, including cash and cash equivalents, restricted cash, interest-bearing deposits in other banks, call loans and securities purchased under resale agreements, accrued interest receivable and payable, due from customers on acceptances and acceptances outstanding, dividends receivable, security deposits, non-interest-bearing deposits, call money, other borrowed funds and security deposits received are considered to approximate their fair values due to their short-term nature and negligible credit losses.

Securities and trading assets and liabilities: Fair values for trading assets, securities available-for-sale and trading liabilities (including trading derivative financial instruments) are the amounts recognized in the consolidated balance sheets, which are based on market prices, where available. Fair values of held-to-maturity securities are also based on market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments except in the case of certain swaps where pricing models are used.

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Other investment assets: Other investment assets consist primarily of non-marketable equity securities, restricted stock and investments in affiliates. The fair values of these investments are based on the estimation of market value or latest obtainable net asset value of the investee.

Loans: Loans are net of specific and general provisions for impairment. The fair values of fixed rate loans are estimated by discounting contractual cash flows based on current rates at which similar loans would be made to borrowers for the same maturities. The fair values of variable rate loans that reprice frequently with no significant changes in credit risk are considered to approximate their carrying values in the consolidated balance sheets.

Loans held for sale: Loans held for sale are carried at the lower of aggregate cost or market value. The fair values of loans held for sale are based on the commitments on hand from KHFC.

Interest-bearing deposits: The fair values of fixed rate interest-bearing deposits are estimated by discounting cash flows based on current interest rates being offered for deposits of similar types and with similar remaining maturities. The fair values of variable rate interest-bearing deposits are considered to approximate their carrying values in the consolidated balance sheets.

Secured borrowings and long-term debt: The aggregate fair values are based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar remaining maturities.

Derivative financial instruments: All derivatives are recognized on the balance sheet at fair value based on quoted market prices or dealer quotes where available. If quoted market prices are not available, pricing or valuation models are applied to current market information to estimate fair value (see Note 35).

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The estimated fair values of the Company's financial instruments as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)					
	2003		2004		2005	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:						
Cash and cash equivalents	2,550,538	2,550,538	2,311,350	2,311,350	4,004,825	4,004,825
Restricted cash	3,222,283	3,222,283	2,391,906	2,391,906	4,651,210	4,651,210
Interest-bearing deposits in other banks	1,640,210	1,640,210	990,100	990,100	1,552,606	1,552,606
Call loans and securities purchased under resale agreements	1,126,988	1,126,988	1,499,041	1,499,041	1,425,644	1,425,644
Trading assets	4,290,814	4,290,814	6,989,381	6,989,381	4,889,202	4,889,202
Available-for-sale securities	12,407,889	12,407,889	12,302,393	12,302,393	18,287,971	18,287,971
Held-to-maturity securities	9,801,533	10,143,290	8,406,260	8,763,901	9,637,804	9,613,695
Other investment assets	792,746	1,148,511	1,138,180	1,750,636	1,397,268	3,666,232
Loans, net	85,586,953	85,294,625	88,705,196	88,361,117	102,630,483	102,091,537
Due from customers on acceptances	420,859	420,859	337,599	337,599	355,471	355,471
Accrued interest and dividends receivable	746,765	746,765	557,700	557,700	702,681	702,681
Loans held for sale			26,015	26,015	43,778	43,778
Other assets - hedging derivatives	56,307	56,307	9,928	9,928	3,528	3,528
Other assets - security deposits	997,105	997,105	980,975	980,975	991,371	991,371
Financial liabilities:						
Interest-bearing deposits	85,481,655	85,320,538	86,339,328	85,626,525	99,608,926	99,192,131
Non-interest bearing deposits	3,520,977	3,520,977	3,713,752	3,713,752	4,537,989	4,537,989
Call money	412,078	412,078	689,390	689,390	325,701	325,701
Trading liabilities	473,074	473,074	1,628,088	1,628,088	1,339,223	1,339,223
Acceptances outstanding	420,859	420,859	337,599	337,599	355,471	355,471
Other borrowed funds	9,345,210	9,345,210	9,114,759	9,114,759	9,909,376	9,909,376
Secured borrowings	4,321,289	4,198,905	2,352,312	2,370,796	2,556,605	2,554,364
Long-term debt	14,916,813	14,827,144	15,661,605	15,857,736	21,849,694	21,425,270
Accrued interest payable	1,617,963	1,617,963	1,713,276	1,713,276	1,720,562	1,720,562
Other liabilities - hedging derivatives	5,046	5,046	2,346	2,346	54,748	54,748
Other liabilities - security deposits received	143,636	143,636	115,021	115,021	116,852	116,852

The differences between the carrying amounts and the fair values of guarantees, commercial letters of credit and other credit-related commitments are immaterial to the consolidated financial statements.

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In the normal course of business, the Company enters into derivatives and foreign exchange spot contracts to meet the financing needs of its customers. The Company also uses derivative instruments in managing its own trading and asset-liability management exposures to fluctuations in interest rates and foreign exchange risks. The total notional amounts of the derivative contracts that the Company entered into as of December 31, 2003, 2004, and 2005, respectively, were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Interest rate derivatives	8,564,339	14,871,839	24,123,506
Foreign currency derivatives	17,467,735	35,686,145	42,886,355
Equity derivatives	973,985	1,790,177	4,078,423
Credit derivatives	107,802	83,504	60,780
	<u>27,113,861</u>	<u>52,431,665</u>	<u>71,149,064</u>

The combined aggregate notional amount by contractual maturities of the derivative contracts as of December 31, 2005 was as follows:

	Korean Won (in millions)			
	Due in one year	Due after one year	Due after five	Total
	or less	through five years	years	
Interest rate derivatives	6,512,675	14,978,643	2,632,188	24,123,506
Foreign currency derivatives	29,226,189	12,078,712	1,581,454	42,886,355
Equity derivatives	3,437,513	638,856	2,054	4,078,423
Credit derivatives	50,650	10,130		60,780
	<u>39,227,027</u>	<u>27,706,341</u>	<u>4,215,696</u>	<u>71,149,064</u>

The Company uses interest rate derivatives principally to manage exposure to interest rate risk. Pay fixed interest rate swaps are used to convert fixed rate assets, principally securities, into synthetic variable rate instruments. Receive fixed interest rate swaps contracts are used to convert fixed rate funding sources into synthetic variable rate funding instruments. Cross-currency interest rate swaps are contracts that generally involve the exchange of both interest and principal amounts in two different currencies. Cross-currency swaps are used by the Company to convert foreign currency denominated assets into floating rate U.S. dollar denominated assets.

The Company occasionally purchases or issues financial instruments containing embedded derivatives. The embedded derivative is separated from the host contract and carried at fair value if the economic characteristics of the derivative are not clearly and closely related to the economic characteristics of the host contract. To the extent that the Company cannot reliably identify and measure the embedded derivative, the entire contract is carried at fair value on the balance sheet with changes in fair value reflected in earnings.

Derivative instruments may expose the Company to market risk or credit risk in excess of the amounts recorded on the balance sheet. Market risk arises due to market price, interest rate and foreign exchange rate fluctuations that may result in a decrease in the market value of a financial instrument and/or an increase in its funding cost. Exposure to market risk is managed through position limits and other controls and by entering into

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hedging transactions which result in economic hedges. Credit risk is the possibility that loss may occur from a third party's failure to perform according to the terms of the contract if the value of collateral held, if any, was not adequate to cover such losses. Credit risk is controlled through credit approvals, limits and monitoring procedures based on the same credit policies used for on-balance-sheet instruments. Generally, collateral or other security is not required. The amount of collateral obtained, if any, is based on the nature of the financial instrument and management's credit evaluation of each counterparty.

The majority of the Company's derivatives do not qualify as hedges pursuant to SFAS No. 133, except for certain derivatives which qualify as fair value hedges under the short-cut method. Fair values of derivatives not qualifying for hedge accounting are reflected in Trading assets or Trading liabilities and any changes in fair values related to these derivatives transactions are reflected in Trading revenue, net. However, the fair values of derivatives qualifying for hedge accounting are included in Other assets or Other liabilities and the earnings impact of these fair value hedges and the change in fair value attributable to the risk being hedged for the hedged item are included in Other non-interest income or Other non-interest expenses.

36. Commitments and Contingencies***Legal proceedings***

In the normal course of business, the Company has been named as a defendant in various lawsuits claiming damages amounting to 689 billion Won as of December 31, 2005. Among the lawsuits in which the Company is a defendant, in October 2001 and October 2002, Hanvit Bank (renamed Woori Bank), two other domestic banks, and others were named as defendants in three lawsuits alleging damages of US\$880 million in the United States. The plaintiffs, Filler et al., Baker et al. and Stonington Partners, Inc. et al., alleged that the defendants aided and abetted Lernout & Hauspie Speech Products N.V. in the commission of an alleged fraud and were jointly liable for the losses arising from the Lernout & Hauspie Speech Products N.V.'s fraudulent financial statement presentation by aiding and assisting in such actions. However, the court dismissed the complaints without prejudice due to the lack of diversity and federal jurisdiction and requisite specificity required for federal claims. The complaints were subsequently vacated by the court. In December 2003, amended complaints were filed by the plaintiffs Filler et al. and Baker et al. However, on March 15, 2006, the court dismissed the amended complaints on the ground of insufficient evidence. In August 5, 2005, Woori Bank and three other domestic banks were named as defendants in another lawsuit in connection with this matter alleging damage of US\$50 million. Scott L. Baena, the plaintiff and the Liquidation Trustee of the Lernout & Hauspie Speech Products N.V., alleged that the defendants assisted Lernout & Houspie Korea, a Korean subsidiary of Lernout & Hauspie Speech Products N.V., in falsely inflating its financial results by entering into certain transactions with Lernout & Houspie Korea and consequently harmed Lernout & Hauspie Speech Products N.V. The lawsuit is still in process. The Company has determined that a loss is not probable for these lawsuits at this time as defined by SFAS No. 5, Accounting for Contingencies. The Company has filed lawsuits asking for damages amounting to approximately 1,301 billion Won as of December 31, 2005.

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Although the ultimate outcome of these matters cannot be determined at this time, it is the opinion of management, after consultation with legal counsel, that the resolution of such matters will not have a material adverse effect on the consolidated financial condition of the Company but may be material to the Company's operating results for any particular period, depending on the level of the Company's income for such period.

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005***Lease commitments*

The Company leases certain office space and equipment under non-cancelable agreements. Future minimum rental commitments for non-cancelable leases as of December 31, 2005 were as follows:

	Korean Won (in millions)	
	Capitalized leases	Operating leases
2006	14,486	90,850
2007	5,645	15,528
2008	3,099	15,456
2009	3,440	15,460
2010	59	15,484
2011 and thereafter		28,714
Total minimum lease payments	26,729	181,492
Amount representing interest	(1,840)	
Present value of minimum lease payments	24,889	

Total rental expense for the years ended December 31, 2003, 2004 and 2005 was 105,785 million Won, 137,177 million Won and 124,858 million Won, respectively.

In lieu of rent, certain lease agreements require the Company to advance a non-interest-bearing refundable deposit to the landlord for the landlord's use during the lease term. The amount of the advance is determined by the prevailing market rate. The Company has recorded an equal amount of rent expense and interest income related to these leases of 39,050 million Won, 36,521 million Won and 32,635 million Won on deposit balances of 976,239 million Won, 961,077 million Won and 971,345 million Won for the years ended December 31, 2003, 2004 and 2005, respectively. Such amounts were calculated based on the fixed interest rate for time deposits with similar maturities.

Credit-related commitments

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business. The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees, which represent irrevocable assurances that the Company will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Cash requirements under guarantees are considerably less than those under commitments because the Company does not generally expect the third party to draw funds under the agreement.

Commercial letters of credit, which are written undertakings by the Company on behalf of a customer authorizing a third party to draw drafts on the Company up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Company is potentially exposed to loss in an amount equal to the total unused commitments.

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For credit related financial instruments, the contractual amount of the financial instrument represents the maximum potential credit risk if the third party does not perform according to the terms of the contracts. A large majority of these commitments expire without being drawn upon. As a result, total contractual amounts are not representative of the Company's actual future credit exposure or liquidity requirements for these commitments.

Management computes specific and probable loss components for credit-related commitments. As of December 31, 2003, 2004 and 2005, the allowance for credit-related commitments amounted to 457,777 million Won, 225,727 million Won and 128,450 million Won, respectively, which is reported in Other liabilities.

As of December 31, 2003, 2004 and 2005, the financial instruments whose contract amounts represent credit risk to the Company were as follows:

	Korean Won (in millions)		
	Contract Amount		
	2003	2004	2005
Guarantees	1,666,126	1,275,871	1,793,488
Commercial letters of credit	3,136,744	2,911,244	2,666,060
Unused lines of credit:			
Commercial	20,151,869	26,449,553	40,081,532
Credit cards	9,173,244	14,358,883	14,223,385
Consumer	4,716,446	4,822,731	4,925,463
Commitments to extend credit:			
Original term to maturity of less than one year	175,600	31,100	
Original term to maturity of more than one year	1,081,453	1,319,505	1,748,623

Pledged assets

The primary components of assets pledged as collateral for borrowings and other purposes as of December 31, 2003, 2004 and 2005 were as follows:

	Korean Won (in millions)		
	2003	2004	2005
Short-term and long-term deposits	236,686	234,992	370,889
Trading securities	58,227	43,119	
Available-for-sale securities	960,322	1,783,396	3,318,142
Held-to-maturity securities	6,628,564	6,793,279	4,489,048
Loans	2,224,745	459,458	399,593
Other pledged assets	12,039	33,979	113,917
Total	10,120,583	9,348,223	8,691,589

Joint Venture Master Agreement on non-performing loans

On September 5, 2002, the Company entered into a Joint Venture Master Agreement with Lehman to co-manage certain non-performing loans. According to the agreement, Woori F&I Co., Ltd. and an affiliate of Lehman jointly established JV SPVs during 2002 and 2003 to purchase non-performing loans from the Company. The agreement also includes Lehman or its affiliates acquiring 49% of the shares of Woori Capital

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Advisors Asset Management Co., Ltd. from Woori F&I Co., Ltd. and purchasing up to US\$250 million of convertible bonds issued by the Company. A total of 130,198 million Won of convertible debentures were issued in 2002 and 2003 under this agreement, all of which were converted in 2004 and 2005 (see Note 20). 49% of the shares of Woori Capital Advisors Asset Management Co., Ltd., acquired by a Lehman's affiliate in 2002 in accordance with the agreement, were transferred to Woori F&I Co., Ltd. on October 28, 2005, and accordingly, Woori F&I Co., Ltd. wholly owned Woori Capital Advisors Asset Management Co., Ltd. as of December 31, 2005 (see Note 3). On October 27, 2005, Woori F&I Co., Ltd. and the Lehman's affiliate who jointly owned JV SPVs agreed on a sale agreement to transfer 30% of interests in the JV SPVs held by Woori F&I Co., Ltd. to the Lehman's affiliate. However, this sale transaction did not satisfy the criteria of SFAS No. 140 and did not qualify as a true sale. Therefore, the interests in the JV SPVs held by Woori F&I Co., Ltd. amounting to 38,281 million Won were reclassified from Other Investments to Other Assets and the consideration of 43,977 million Won received by Woori F&I Co., Ltd. through the transaction was recorded as Secured Borrowings as of the transaction date in accordance with SFAS No. 140.

Obligation under guarantees

The Company provides a variety of guarantees to its customers to enhance their credit standing and enable them to complete a wide variety of business transactions. The table below summarizes all of the Company's guarantees under FIN No. 45 as of December 31, 2005. The maximum potential amount of future payments represents the notional amount that could be lost under the guarantees if there were a total default by the guaranteed parties, without consideration of possible recoveries under recourse provisions or from collateral held or pledged.

	Korean Won (in millions)			
	Expire within	Expire after	Maximum potential	
	one year	one year	Total	amount of future payment
Financial guarantees	223,218	73,359	296,577	296,577
Performance guarantees	930,324	566,587	1,496,911	1,496,911
Liquidity facilities to SPEs	2,298,131		2,298,131	2,298,131
Loans sold with recourse to KAMCO		17,050	17,050	17,050
Credit derivatives	50,650	10,130	60,780	60,780

Financial guarantees are used in various transactions to enhance the credit standing of the Company's customers. They represent irrevocable assurance, subject to satisfaction of certain conditions, that the Company will make payment in the event that the customers fail to fulfill their obligations to third parties. Such financial obligations principally composed of standby letters of credit, and credit enhancement for debtors.

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Performance guarantees are issued to guarantee customers' tender bids on construction or similar projects or to guarantee completion of such projects in accordance with contract terms. They are also issued to support the customers' obligation to supply specified products, commodities, maintenance or other services to third parties.

The Company typically has recourse to recover from the customer any amounts paid under these guarantees; in addition, the Company may hold cash or other highly liquid collateral to support these guarantees. In connection with financial guarantees and performance guarantees, the Company has recognized unearned income amounting to 6,390 million Won, 5,792 million Won and 6,567 million Won as of December 31, 2003, 2004 and 2005, respectively. Unearned income is included in Other liabilities.

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Liquidity facilities to SPEs represent irrevocable commitments to provide contingent liquidity credit lines to SPEs. The SPEs are established by clients to have access to funding from the commercial paper market or the corporate debt market by transferring assets to the SPEs. The Company had commitments to provide liquidity to SPEs in amounts up to 566,497 million Won, 1,198,410 million Won and 2,298,131 million Won as of December 31, 2003, 2004 and 2005, respectively. Although the Company did not sell assets to some of these SPEs, it would be required to provide funding under the liquidity credit lines in the event that the SPEs do not hold enough funds to make scheduled payments on their outstanding senior debt securities. The Company has limited credit exposure to these SPEs because the risk of first loss is borne by the clients or other third parties, or the SPEs are over-collateralized with the assets sold to them.

Loans sold subject to repurchase obligation represent certain non-performing loans the Company sold to KAMCO prior to 2000. As of December 31, 2003, 2004 and 2005, the Company recorded a liability of 134,753 million Won, 21,843 million Won and 5,685 million Won, respectively, representing its estimated repurchase obligation under the sales agreements.

The Company has entered into credit derivatives with unrelated parties for credit enhancement purposes. These derivatives are recorded on the balance sheet at fair value. As of December 31, 2003, 2004 and 2005, these credit derivatives had an aggregate notional amount of 107,802 million Won, 83,504 million Won and 60,780 million Won, respectively, which represents the maximum potential amount of future payments on the contracts. The carrying amount of these derivatives amounted to 10,483 million Won, net of assets, 504 million Won, net of assets, and 141 million Won, net of liabilities, as of December 31, 2003, 2004 and 2005, respectively.

In the normal course of the Company's business, indemnification clauses are often included in standard contractual terms with an assessment that risk of loss would be remote. In many cases, there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur. No amounts were reflected on the consolidated balance sheet as of December 31, 2003, 2004 and 2005 related to these indemnifications.

37. Concentrations of Geographic and Credit Risk

Geographic risk

Loans to borrowers based in Korea comprised 97.70%, 97.64% and 97.63% of the Company's loan portfolio as of December 31, 2003, 2004 and 2005, respectively. Investments in debt and equity securities of Korean entities comprised 97.83%, 97.54% and 97.82% of the Company's investment portfolio as of December 31, 2003, 2004 and 2005, respectively.

Credit risk

Concentrations of credit risk arise when a number of customers are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet their contractual obligations to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its credit risk portfolio to assess potential concentration risks and to obtain collateral when deemed necessary.

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The table below indicates major products including both on-balance sheet (principally loans) and off-balance sheet (principally unused lines of credit) exposures as of December 31:

Korean Won (in millions)

	2003			2004			2005		
	Credit exposure	On-balance sheet ⁽¹⁾	Off-balance sheet	Credit exposure	On-balance sheet ⁽¹⁾	Off-balance sheet	Credit exposure	On-balance sheet ⁽¹⁾	Off-balance sheet
Commercial loans ⁽¹⁾	80,592,952	54,381,160	26,211,792	88,065,550	56,078,277	31,987,273	108,236,682	61,946,979	46,289,703
Credit cards	13,137,197	3,963,953	9,173,244	16,486,859	2,127,976	14,358,883	16,315,145	2,091,760	14,223,385
Consumer	35,157,239	30,440,793	4,716,446	37,429,309	32,606,578	4,822,731	45,366,159	40,440,696	4,925,463
Total	128,887,388	88,785,906	40,101,482	141,981,718	90,812,831	51,168,887	169,917,986	104,479,435	65,438,551

⁽¹⁾ Includes loans and due from customers on acceptances and excludes unearned income.

38. Related Party Transactions

The Company considers transactions with its majority shareholder (KDIC), directors, employees and trust accounts to be related party transactions. A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and debt securities. These transactions are carried out on commercial terms and conditions and at market rates.

Loans to related parties

The table below summarizes the changes in the amount of loans to KDIC, trust accounts, directors and executive officers, and employees.

Korean Won (in millions)

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	2003			2004			2005		
	KDIC	Directors	Employees	KDIC	Directors	Employees	KDIC	Directors	Employees
Loan as of January 1			195,209	25,600	17	204,861	25,600	49	191,241
New loans	25,600	17	12,273		61			16	7,771
Repayments			(2,621)		(29)	(13,620)			(7,324)
Loan as of December 31	25,600	17	204,861	25,600	49	191,241	25,600	65	191,688

Other balances as of December 31, 2003, 2004 and 2005 and the related expense and income for the years then ended for related party transactions were as follows:

Korean Won (in millions)

	2003				2004				2005			
	KDIC	Trust ⁽¹⁾	Directors	Employees	KDIC	Trust ⁽¹⁾	Directors	Employees	KDIC	Trust ⁽¹⁾	Directors	Employees
Debt securities	8,500,506				6,976,878				3,044,147			
Other assets	502,243	3,889			294,039	3,812			256,973	5,993		
Other borrowed funds		1,611,050				826,677				764,478		
Fees and commissions income		45,404				39,508				13,182		
Interest income on loans	191		1	8,940	1,164	1	2	6,082	1,160		5	6,998
Interest income on securities	647,196				568,225				151,081			
Interest expense on other borrowed funds		38,812				39,418				35,597		
Trading revenue, net	641				884				2,283			
Investment securities gain, net	4,551				318				669			

(1) See Note 41

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Subsidiaries of the Holding Company as of December 31, 2005 were as follows:

<u>Subsidiary name</u>	<u>Country of incorporation</u>	<u>Percentage of ownership⁽¹⁾</u>
Woori Finance Information System Co., Ltd.	Korea	100.00%
NexBI Tec Co., Ltd.	Korea	50.50%
Woori Asset Management Co., Ltd.	Korea	100.00%
Woori Private Equity Co., Ltd.	Korea	100.00%
Woori F&I Co., Ltd.	Korea	100.00%
Woori Capital Advisors Asset Management Co., Ltd.	Korea	100.00%
Woori Third Asset Securitization Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	100.00%
Woori Bank	Korea	100.00%
Woori Credit Information Co., Ltd.	Korea	100.00%
P.T. Bank Woori Indonesia	Indonesia	95.18%
Woori America Bank	U.S.A.	100.00%
Hanvit LSP Finance Ltd. ⁽²⁾⁽³⁾	Ireland	100.00%
Hanvit 9 th ABS Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	2.90%
Hanvit 11 th ABS Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	4.90%
CKH Investment Co., Ltd. ⁽²⁾⁽³⁾	Korea	15.00%
Woori Ship Mortgage 1 st ABS Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	0.10%
Woori Ship Mortgage 2-2 ABS Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	0.10%
Woori Aircraft Mortgage 1 st Asset Securitization Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	0.10%
Peace 1 st ABS Specialty Co., Ltd. ⁽²⁾⁽³⁾	Korea	10.00%
Woori NSC First Asset Securitization Specialty Co. ⁽²⁾⁽³⁾	Korea	0.10%
Swan SF Co., Ltd. ⁽²⁾⁽³⁾	Korea	0.00%
Woori First Private Equity, L.P.	Korea	98.73%
Kyongnam Bank	Korea	100.00%
Kwangju Bank	Korea	100.00%

(1) Direct and indirect ownership are combined. Cumulative losses applicable to minority interest that exceed minority interest in the subsidiaries' capital are charged against majority interest.

(2) Established as an SPE.

(3) As the Company is deemed the primary beneficiary, these VIEs were included in the consolidated financial statements of the Company.

All holdings are in the common shares of the subsidiary concerned. Guaranteed trust accounts and certain VIEs, other than the SPEs listed above, which were consolidated as of December 31, 2005, are not included in the list of the subsidiaries (see Notes 1, 11 and 41).

40. Segment Reporting

Under U.S. GAAP, companies report segment information based on the way management disaggregates the company for making operating decisions. The Company used to have five reportable segments: Woori Bank and its subsidiaries, Kyongnam Bank and its subsidiaries, Kwangju Bank, Woori Credit Card Co., Ltd. and its subsidiaries, and Woori Investment Bank and its subsidiaries. After the merger of Woori Investment Bank into Woori Bank in 2003, Woori Investment Bank is no longer separately managed as a reportable segment. Its results for the year ended December 31, 2003 are included in those of Woori Bank for the year ended December 31, 2003. In the contrary, although Woori Credit Card Co., Ltd. was merged into Woori Bank in 2004, the

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management of the Company continuously manages the credit card operation of Woori Bank separately as a reportable segment for making operating decisions. In addition, as a result of the acquisition of LG Investment & Securities Co., Ltd. in 2004, securities brokerage services operation of the Company is added as a new separately reportable segment for the year ended December 31, 2004. The segment reporting for the prior year is adjusted accordingly by reporting separately as securities brokerage services segment the results of Woori Securities Co., Ltd., which was the only subsidiary engaged in securities brokerage services before the investment in LG Investment & Securities Co., Ltd., for the year ended December 31, 2003. As of December 31, 2005, the securities brokerage services segment represents the operation of Woori Investment & Securities Co., Ltd., an entity which resulted from the merger between Woori Securities Co., Ltd. and LG Investment & Securities Co., Ltd. in 2005 (see Note 3). The Company's reportable segments are based on individual entity's history of operating as independent financial institutions prior to their acquisition by KDIC and the Company, the nature of the products and services provided, the type of class of customers and the Company's management organization, and provide the basis on which the Company reports its segment information:

Woori Bank segment Woori Bank has 14 subsidiaries, which are comprised of 1 domestic company, 2 overseas companies, 1 private equity fund and 10 SPEs. Woori Bank is engaged in the commercial banking business and foreign exchange operations. Woori Bank segment excludes the credit card operation of Woori Bank which is included in the credit card operation segment.

Kyongnam Bank segment Kyongnam Bank is engaged in the commercial banking business and foreign exchange operations. It primarily operates in the southeastern part of Korea.

Kwangju Bank segment Kwangju Bank is engaged in the commercial banking business and foreign exchange operations. It primarily operates in the southwestern part of Korea.

Credit card operation segment (formerly Woori Credit Card Co., Ltd. segment) Woori Credit Card Co., Ltd. was engaged in the credit card business. On March 29, 2004, Woori Credit Card Co., Ltd. split off a part of its credit card business, which had been previously purchased from Kwangju Bank, and transferred it back to Kwangju Bank. In addition, on March 31, 2004, Woori Credit Card Co., Ltd. transferred all other assets and liabilities, including its credit card subscriber base, to Woori Bank and merged with Woori Bank (see Note 3). As of December 31, 2005, the credit card operation segment includes the credit card operation of Woori Bank.

Securities brokerage services segment Woori Investment & Securities Co., Ltd. comprises this segment and provides a full range of brokerage services, investment advice and financial planning to retail customers, and various investment banking services to corporate customers. Woori Investment & Securities Co., Ltd. has 7 subsidiaries, which are comprised of 1 domestic company, 5 overseas companies and 1 SPE.

Other operations of the Company comprise certain subsidiary activities including asset management activities and information system activities; none of which constitutes a separately reportable segment. The segment information presented below is based on Korean GAAP since that is the information used by the chief operating decision maker to allocate resources and evaluate performance of the segments. Korean GAAP differs from U.S. GAAP in several respects. Operating revenues and expenses and interest income and expense, related to both third party and inter-segment transactions, are included in determining the operating earnings of each respective segment. Transactions between the business segments are reflected on the terms established by management.

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Summaries of the business segment results in 2003, 2004 and 2005 are shown in the following table:

Korean Won (in millions)

Year ended December 31, 2003	Woori Bank ⁽¹⁾	Kyongnam Bank	Kwangju Bank	Credit card operation	Securities brokerage services	Other	Elimination ⁽²⁾	Total
Operating income	8,489,814	789,778	599,863	995,189	164,034	752,158	(801,124)	10,989,712
Operating expenses	7,036,767	735,047	567,321	2,194,800	181,084	517,024	(473,393)	10,758,650
Segment result	1,453,047	54,731	32,542	(1,199,611)	(17,050)	235,134	(327,731)	231,062
Interest and dividend income	5,846,497	653,841	524,560	575,703	23,815	80,250	(140,715)	7,563,951
Interest expense	2,900,146	356,245	290,187	217,764	4,392	163,116	(89,448)	3,842,402
Net interest income (loss)	2,946,351	297,596	234,373	357,939	19,423	(82,866)	(51,267)	3,721,549
Provisions for loan and lease losses, and credit-related commitments	808,195	128,290	95,443	1,649,553	3,675	12,036	(18,081)	2,679,111
Non-interest income	2,643,317	135,937	75,303	419,487	140,219	671,908	(660,410)	3,425,761
Non-interest expenses	3,255,469	245,331	174,214	325,686	161,029	244,461	(381,461)	4,024,729
Net non-interest income (loss)	(612,152)	(109,394)	(98,911)	93,801	(20,810)	427,447	(278,949)	(598,968)
Depreciation and amortization	72,957	5,181	7,477	1,798	11,988	97,411	15,596	212,408
Net income (loss) before tax	1,453,047	54,731	32,542	(1,199,611)	(17,050)	235,134	(327,731)	231,062
Income tax expense (benefit)	105,447	(30,493)	(24,510)	120,960	(3,997)	11,214	67	178,688
Minority interest	2,169					1,730	(7,804)	(3,905)
Net income (loss) for the period	1,345,431	85,224	57,052	(1,320,571)	(13,053)	222,190	(319,994)	56,279
U.S. GAAP adjustments	(461,121)	(16,811)	20,780	(10,804)	13,079	(248,898)	(24,838)	(728,613)
Consolidated net income (loss)	884,310	68,413	77,832	(1,331,375)	26	(26,708)	(344,832)	(672,334)
Segments total assets	105,333,328	11,045,360	8,789,242	2,461,648	642,221	8,791,182	(8,295,261)	128,767,720
U.S. GAAP adjustments	(1,820,230)	(112,004)	(31,581)	1,587,088	1,360	1,911,500	(2,691,006)	(1,154,873)
Segments total assets	103,513,098	10,933,356	8,757,661	4,048,736	643,581	10,702,682	(10,986,267)	127,612,847

Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

Korean Won (in millions)

Year ended December 31, 2004	Woori Bank	Kyongnam Bank	Kwangju Bank	Credit card operation	Securities brokerage services	Other	Elimination ⁽²⁾	Total
Operating income	11,480,204	793,418	612,902	665,181	178,728	1,896,942	(1,809,883)	13,817,492
Operating expenses	10,084,880	681,587	512,955	923,095	177,433	552,750	(349,944)	12,582,756
Segment result	1,395,324	111,831	99,947	(257,914)	1,295	1,344,192	(1,459,939)	1,234,736
Interest and dividend income	5,587,063	656,771	530,506	301,379	26,026	45,855	(161,800)	6,985,800
Interest expense	2,846,766	315,226	278,926	82,235	3,732	171,426	(51,480)	3,646,831
Net interest income (loss)	2,740,297	341,545	251,580	219,144	22,294	(125,571)	(110,320)	3,338,969
Provisions for loan and lease losses, and credit-related commitments	552,968	100,854	59,648	547,291	2,862	(2,059)	147,385	1,408,949
Non-interest income	5,865,941	133,793	82,281	300,032	152,701	1,847,799	(1,550,855)	6,831,692
Non-interest expenses	6,562,156	255,671	166,417	228,181	160,448	270,956	(364,822)	7,279,007
Net non-interest income (loss)	(696,215)	(121,878)	(84,136)	71,851	(7,747)	1,576,843	(1,186,033)	(447,315)
Depreciation and amortization	95,790	6,982	7,849	1,618	10,390	109,139	16,201	247,969
Net income (loss) before tax	1,395,324	111,831	99,947	(257,914)	1,295	1,344,192	(1,459,939)	1,234,736
Income tax expense (benefit)	(393,257)	2,595	27,676		854	11,176	294,072	(56,884)
Minority interest	503					1,774	(3,150)	(873)
Net income (loss) for the period	1,788,078	109,236	72,271	(257,914)	441	1,331,242	(1,750,861)	1,292,493
U.S. GAAP adjustments ⁽³⁾	158,417	5,830	(30,669)	499,033	1,370	(1,326,102)	1,734,983	1,042,862
Consolidated net income	1,946,495	115,066	41,602	241,119	1,811	5,140	(15,878)	2,335,355
Segments total assets	106,743,462	12,042,717	9,890,728	1,766,283	6,153,320	10,370,206	(10,336,155)	136,630,561
U.S. GAAP adjustments ⁽³⁾	(705,655)	(40,798)	17,679	(28,760)	(5,222,975)	(2,697,882)	2,961,589	(5,716,802)
Segments total assets	106,037,807	12,001,919	9,908,407	1,737,523	930,345	7,672,324	(7,374,566)	130,913,759

Korean Won (in millions)

Year ended December 31, 2005	Woori Bank	Kyongnam Bank	Kwangju Bank	Credit card	Securities brokerage	Other	Elimination ⁽²⁾	Total
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				operation	services			
Operating income	11,078,292	816,491	673,914	570,447	1,536,120	2,285,678	(2,144,954)	14,815,988
Operating expenses	9,685,757	672,957	575,772	314,278	1,296,204	484,992	(359,676)	12,670,284
Segment result	1,392,535	143,534	98,142	256,169	239,916	1,800,686	(1,785,278)	2,145,704
Interest and dividend income	5,658,763	702,001	588,721	515,093	210,224	36,455	(22,512)	7,688,745
Interest expense	2,878,150	324,031	296,300	38,410	93,154	143,686	(37,597)	3,736,134
Net interest income (loss)	2,780,613	377,970	292,421	476,683	117,070	(107,231)	15,085	3,952,611
Provisions for loan and lease losses, and credit-related commitments	391,046	61,039	72,641	13,886	27,786	(614)	(18,986)	546,798
Non-interest income	5,419,529	114,490	85,193	55,354	1,325,896	2,249,223	(2,122,442)	7,127,243
Non-interest expenses	6,304,254	280,688	199,240	261,982	1,146,537	246,571	(300,757)	8,138,515
Net non-interest income (loss)	(884,725)	(166,198)	(114,047)	(206,628)	179,359	2,002,652	(1,821,685)	(1,011,272)
Depreciation and amortization	112,307	7,199	7,591		28,727	95,349	(2,336)	248,837
Net income before tax	1,392,535	143,534	98,142	256,169	239,916	1,800,686	(1,785,278)	2,145,704
Income tax expense (benefit)	151,806	10,856	(26,542)	70,447	72,037	27,181	6,398	312,183
Minority interest	538				7,223	1,548	135,991	145,300
Net income for the period	1,240,191	132,678	124,684	185,722	160,656	1,771,957	(1,927,667)	1,688,221
U.S. GAAP adjustments ⁽³⁾	49,979	(8,078)	(13,179)	58,989	(73,192)	116,074	(12,919)	117,674
Consolidated net income	1,290,170	124,600	111,505	244,711	87,464	1,888,031	(1,940,586)	1,805,895
Segments total assets	126,557,197	14,098,938	11,697,181	2,906,248	9,196,415	12,642,498	(12,555,629)	164,542,848
U.S. GAAP adjustments ⁽³⁾	(1,358,577)	(685)	4,025	(3,932)	(8,561,571)	182,334	110,259	(9,628,147)
Segments total assets	125,198,620	14,098,253	11,701,206	2,902,316	634,844	12,824,832	(12,445,370)	154,914,701

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005**

- (1) Adjusted for the merger of Woori Investment Bank, which occurred on July 31, 2003.
(2) Includes eliminations for consolidation, inter-segment transactions and certain differences in classification under the management reporting system.
(3) Includes adjustment for the application of the equity method under U.S. GAAP to the investments in Woori Investment & Securities Co., Ltd. (formerly LG Investment & Securities Co., Ltd.), which is included in the securities brokerage services segment and is consolidated under Korean GAAP.

The allowance for credit losses determined in accordance with U.S. GAAP for each of the segments as of December 31, 2003, 2004 and 2005 is summarized as follows:

	Woori Bank	Kyongnam Bank	Kwangju Bank	Credit card operation	Securities brokerage services	Other	Adjustment ⁽¹⁾	Total
As of December 31, 2003								
Allowance for loan and lease losses	1,454,332	114,930	80,892	1,096,244	23,019	64,258		2,833,675
Allowance for credit-related commitments	364,258	12,195	10,078	71,246				457,777
Allowance for repurchase obligation	124,284	6,671	704	3,094				134,753
	1,942,874	133,796	91,674	1,170,584	23,019	64,258		3,426,205
As of December 31, 2004								
Allowance for loan and lease losses	1,421,332	125,327	91,612	156,390	10,932			1,805,593
Allowance for credit-related commitments	174,578	9,372	10,233	31,544				225,727
Allowance for repurchase obligation	17,779	3,356	708					21,843
	1,613,689	138,055	102,553	187,934	10,932			2,053,163
As of December 31, 2005								
Allowance for loan and lease losses	1,285,449	94,692	86,771	57,624	149,322		(149,322)	1,524,536
Allowance for credit-related commitments	95,171	7,001	12,368	13,910	11,659		(11,659)	128,450
Allowance for repurchase obligation	3,507	1,335	843					5,685
	1,384,127	103,028	99,982	71,534	160,981		(160,981)	1,658,671

- (1) Includes adjustment for the application of the equity method under U.S. GAAP to the investments in Woori Investment & Securities Co., Ltd. (formerly LG Investment & Securities Co., Ltd.), which is included in the securities brokerage services segment and is consolidated under Korean GAAP.

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The charge-offs, including the charge-offs for repurchased loans, for each of the segments for the years ended December 31, 2003, 2004 and 2005 are summarized as follows:

	Korean Won (in millions)						Total
	Woori	Kyongnam	Kwangju	Credit card	Securities	Other	
	Bank ⁽¹⁾	Bank	Bank	operation	brokerage services		
2003	2,873,657	245,117	114,412	1,419,666	4,217	32,137	4,689,206
2004	1,064,167	115,348	71,466	1,027,455	18,175	64,258	2,360,869
2005	536,583	74,768	72,604	168,494			852,449

⁽¹⁾ Adjusted for the merger of Woori Investment Bank, which occurred on July 31, 2003.

Geographic segment disclosures have been excluded as assets and revenues attributable to external customers in foreign countries are not significant.

41. Trust Accounts

The Company manages funds on behalf of its customers through the operation of various trust accounts in accordance with the Korean Trust Law and the Korean Trust Business Act. Trust accounts are classified into performance based trusts and guaranteed trusts.

For performance based trusts, amounts due to trust beneficiaries are based solely on the interest, dividends and gains/losses on asset sales. The performance based trusts do not represent assets and liabilities of the Company, are recorded in separate accounts from those of the banking business and are excluded from the consolidated financial statements. The Company also borrows from these trusts (see Notes 18 and 38). The total amounts of assets managed in these performance based trusts were 12,708,259 million Won, 9,673,898 million Won and 5,577,314 million Won as of December 31, 2003, 2004 and 2005, respectively.

Guaranteed Principal Money Trusts require the Company to guarantee the return of the principal amount invested at the termination of a fixed term deposit. Additionally, the Company guarantees a specified rate of return on Guaranteed Fixed Rate Money Trusts. As a result of these guarantees the potential risk and rewards generated from guaranteed trusts are transferred to the Company, therefore, such trusts are subject to

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consolidation by the Company. The accounts of such trusts are included in the accompanying consolidated financial statements. Total assets of the consolidated trust accounts as of December 31, 2003, 2004 and 2005 were 1,994,120 million Won, 2,292,985 million Won and 2,057,154 million Won, respectively, and mainly consist of trading securities, loans and other assets. Liabilities of these trust accounts mainly consist of deposits from customers which amounted to 1,643,433 million Won, 2,029,728 million Won and 1,898,532 million Won as of December 31, 2003, 2004 and 2005, respectively (see Note 17).

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Table of Contents**WOORI FINANCE HOLDINGS CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE YEARS ENDED DECEMBER 31, 2003, 2004 AND 2005****42. Parent Company**

Condensed financial information of the parent company is as follows:

Condensed balance sheets

	Korean Won		
	2003	2004	2005
	<i>(in millions)</i>		
Assets			
Interest bearing deposits in other banks:			
Bank Subsidiaries	349,585	56,099	104,072
Investment in subsidiaries:			
Bank Subsidiaries	6,237,957	7,749,765	9,548,556
Non-bank subsidiaries	558,482	948,056	970,036
Other assets	61,395	19,419	14,609
Total assets	7,207,419	8,773,339	10,637,273
Liabilities			
Losses of investee in excess of investment made:			
Non-bank subsidiaries	898,095		
Other borrowed funds		100,000	150,000
Long-term debt	2,620,144	2,179,288	2,146,203
Other liabilities	33,226	30,108	20,003
Total liabilities	3,551,465	2,309,396	2,316,206
Stockholders equity			
Stockholders equity	3,655,954	6,463,943	8,321,067
Total liabilities and stockholders equity	7,207,419	8,773,339	10,637,273

Condensed statements of income (loss)

	Korean Won		
	2003	2004	2005
	(in millions)		
Interest and dividend income			
Deposits in other banks:			
Bank Subsidiaries	5,066	10,605	4,309
Others	1	65	2,350
Investment securities:			
Bank Subsidiaries	26,397	8,018	2,675
Non-bank subsidiaries	25,595	13,397	12,287
Others	9,190		1,944
Total interest and dividend income	66,249	32,085	23,565
Non-interest income	322	2,159	34,013
Total operating income	66,571	34,244	57,578
Interest expense			
Other borrowed funds:			
Others		1,477	4,922
Long-term debt	138,392	142,276	113,190
Other			449
Total interest expense	138,392	143,753	118,561

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	Korean Won		
	2003	2004	2005
	<i>(in millions)</i>		
Non-interest expense	20,186	29,943	78,351
Total operating expense	158,578	173,696	196,912
Loss before equity in net income (loss) of subsidiaries	(92,007)	(139,452)	(139,334)
Equity in net income (loss) of subsidiaries:			
Bank Subsidiaries	728,733	2,306,731	1,754,680
Non-bank subsidiaries	(1,309,060)	105,348	190,549
Total equity in net income (loss) of subsidiaries	(580,327)	2,412,079	1,945,229
Extraordinary item, remaining excess of fair value over cost of acquired net assets		62,728	
Net income (loss)	(672,334)	2,335,355	1,805,895

Condensed statements of cash flows

	Korean Won		
	2003	2004	2005
	<i>(in millions)</i>		
Cash flows from operating activities:			
Net income (loss)	(672,334)	2,335,355	1,805,895
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in net income (loss) of subsidiaries	580,327	(2,412,079)	(1,945,229)
Dividends received from subsidiaries:			
Bank Subsidiaries	527,190	661,125	54,412
Non-bank subsidiaries	25,800	39,186	14,323
Extraordinary gain		(62,728)	
Others	(26,069)	(24,310)	221,136

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Net cash provided by operating activities	434,914	536,549	150,537
Cash flows from investing activities:			
Net changes in investment in subsidiaries:			
Non-bank subsidiaries	(440,512)	(411,138)	
Others	(74)	(490)	(11)
Net cash used in investing activities	(440,586)	(411,628)	(11)
Cash flows from financing activities:			
Net increase (decrease) in other borrowed funds	(300,000)	100,000	50,000
Net increase (decrease) in long-term debt	601,387	(440,856)	(33,085)
Cash dividends paid	(57,262)	(77,551)	(119,468)
Proceeds from issuance of common stock	37,877		
Net cash provided by (used in) financing activities	282,002	(418,407)	(102,553)
Net increase (decrease) in cash and cash equivalents	276,330	(293,486)	47,973
Cash and cash equivalents, beginning of year	73,255	349,585	56,099
Cash and cash equivalents, end of year	349,585	56,099	104,072

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