WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 25, 2010

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As filed with the Securities and Exchange Commission on June 25, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2009

OR

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

OR

o **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)

Woo Seok Seong
203 Hoehyon-dong, 1-ga, Chung-gu, Seoul 100-792, Korea
Telephone No.: +82-2-2125-2110
Facsimile No.: +82-2-2125-2293
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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.

806,012,780 shares of Common Stock, par value ₩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. þ Yes o 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. o Yes þ 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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o 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):

þ Large accelerated filer o Accelerated Filer o Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

þ U.S. GAAP o International Financial Reporting Standards as issued by the International Accounting Standards Board o Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. o Item 17 o 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). o Yes þ 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. o Yes o No

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

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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, 2005, 2006, 2007, 2008 and 2009 has been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

On October 26 and December 24, 2004, we acquired an aggregate 27.3% voting interest in LG Investment & Securities, or LGIS. As a result of the acquisition, LGIS became an equity method investee as of December 24, 2004. On March 31, 2005, we merged Woori Securities, our wholly-owned subsidiary, into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. In April 2008, we acquired a 51.0% interest in LIG Life Insurance, and entered into a joint venture agreement with Aviva International Holdings Limited in connection with this acquisition. LIG Life Insurance was subsequently renamed Woori Aviva Life Insurance and became an equity method investee as of April 2008.

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~~ W are to the currency of Korea; and
- references to U.S. dollars, $ or US$ are to United States dollars.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2009, which was ₩1,163.7 = 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, intend, may, objective, plan, positioned, predict, project, risk, seek to, shall, should, will like and words and terms of similar substance used 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;

our exposure to market risks; and

adverse market and regulatory conditions.

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

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

- general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;
- the monetary and interest rate policies of Korea;
- inflation or deflation;
- unanticipated volatility in interest rates;
- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;

changes in domestic and foreign laws, regulations and taxes;

changes in competition and the pricing environment in Korea; and

regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

Unless otherwise indicated, the selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Deloitte Anjin LLC, an independent registered public accounting firm.

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

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Consolidated Income Statement Data

	Year ended December 31,					
	2005(1)	2006	2007	2008	2009	2009(2)
	(in billions of Won except per share data)					(in millions of US$ except per share data)
Interest and dividend income	₩ 7,209	₩ 9,365	₩ 12,192	₩ 15,553	₩ 13,273	US$ 11,406
Interest expense	3,727	5,465	7,656	10,402	8,586	7,378
Net interest income	3,482	3,900	4,536	5,151	4,687	4,028
Provision for loan losses	308	509	219	1,608	2,408	2,069
Provision for credit-related commitments (reversal of provision)(3)	(39)	107	(54)	157	44	38
Other provision(4)	17	36	36	71	103	88
Non-interest income	1,916	2,424	2,222	1,307	3,452	2,966
Non-interest expense	2,933	3,098	3,467	4,136	4,093	3,517
Income tax expense	366	620	837	358	379	326
Net income(5)	1,813	1,954	2,253	128	1,112	956
Net income attributable to the noncontrolling interest	7	3	11	(22)	(23)	(19)
Net income attributable to stockholders	1,806	1,951	2,242	150	1,135	975
Other comprehensive income (loss), net of tax	106	477	(143)	(139)	(158)	(136)
Comprehensive income (loss)	1,919	2,431	2,110	(11)	954	820
Comprehensive income (loss) attributable to the noncontrolling interest	7	3	14	(20)	(20)	(17)
Comprehensive income (loss) attributable to stockholders	₩ 1,912	₩ 2,428	₩ 2,096	₩ 9	₩ 974	US$ 837

Per common share data:						
Net income (loss) per share basic	₩ 2,245	₩ 2,420	₩ 2,781	₩ 187	₩ 1,408	US$ 1.21
Income (loss) per share before extraordinary items basic	2,245	2,420	2,781	187	1,408	1.21
Weighted average common shares outstanding basic (in thousands)	804,389	806,013	806,000	805,927	806,013	806,013
Net income (loss) per share diluted[6]	₩ 2,241	₩ 2,420	₩ 2,781	₩ 187	₩ 1,408	US$ 1.21
Income (loss) per share before extraordinary items diluted	2,241	2,420	2,781	187	1,408	1.21
Weighted average common shares outstanding diluted (in thousands)	805,866	806,013	806,000	805,927	806,013	806,013
Cash dividends paid per share[7]	₩ 400	₩ 600	₩ 250	₩	₩ 100	US$ 0.09

(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 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 ₩1,163.7 to US$1.00, the noon buying rate in effect on December 31, 2009 as quoted by the Federal Reserve Bank of New York in the United States.

(3) The reversal of provisions in 2005 and 2007 resulted from subsequent changes in our estimation of losses related to our credit-related commitments. We determined in 2005 and 2007 that a portion of our allowances for losses on credit-related commitments were no longer needed, and accordingly reversed the related portions of the provisions we had initially allocated during the year.

(4) Mainly consists of provisions relating to (a) trade receivables and (b) repurchase obligations with respect to loans sold to the Korea Asset Management Corporation. In 2007, 2008 and 2009, we did not have any provisions relating to repurchase obligations with respect to loans sold to the Korea Asset Management Corporation.

(5) On January 1, 2009, we adopted Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements (ASC 810-10-45-15, Consolidation Noncontrolling Interest in a Subsidiary) (ASC 810-10-45-15). As a result, minority interests have been recharacterized as noncontrolling interests and net income (loss) attributable to noncontrolling interests, net of tax, is included in income (loss) before cumulative effect of a change in accounting principle, net of tax, and subtracted from net income (loss) to calculate net income (loss) attributable to stockholders. Corresponding items for all prior periods have been restated accordingly. See Item 5B. Liquidity and Capital Resources Financial Condition Recent Accounting Pronouncements.

(6) In the diluted earnings per share calculation, our convertible bonds outstanding in 2005 are assumed to have been converted into shares of our common stock, while options outstanding to purchase our common stock in 2005, 2006, 2007 and 2008 are not deemed to have been exercised. We did not have any stock options outstanding in 2009. Convertible debentures issued by Woori Financial, a subsidiary we acquired in September 2007, were included in the diluted earnings per share calculations for 2007 and 2009 but excluded from such calculations due to their anti-dilutive effect in 2008, while stock-based compensation awards of Woori Financial were excluded from the diluted earnings per share calculations for 2007, 2008 and 2009 due to their anti-dilutive effect. See Note 30 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 2005 fiscal year, we paid dividends in 2006 of ₩400 per common share ($0.40 per common share at the noon buying rate in effect on December 30, 2005) to our stockholders. With respect to the 2006 fiscal year, we paid dividends in 2007 of ₩600 per common share ($0.65 per common share at the noon buying rate in effect on December 29, 2006) to our stockholders. With respect to the 2007 fiscal year, we paid dividends in 2008 of ₩250 per common share ($0.27 per common share at the noon buying rate in effect on December 31, 2007) to our stockholders. With respect to the 2008 fiscal year, we did not pay any dividends to our stockholders. With respect to the 2009 fiscal year, we paid dividends in 2010 of ₩100 per common share ($0.09 per common share at the noon buying rate in effect on December 31, 2009) to our stockholders. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated Balance Sheet Data

	As of December 31,					
	2005	2006	2007	2008	2009	2009[1]
	(in billions of Won)					(in millions of US$)
Assets						
Cash and cash equivalents	₩ 8,280	₩ 7,935	₩ 11,553	₩ 13,564	₩ 16,581	US$ 14,249
Restricted cash[2]	376	243	131	2,761	588	506
Interest-earning deposits in other banks	1,553	1,582	2,128	1,747	2,207	1,897
Call loans and securities purchased under resale agreements	1,426	940	1,695	3,692	6,524	5,607
Trading assets	4,889	7,576	12,173	19,817	14,225	12,225
Available-for-sale securities	18,288	28,174	27,235	23,406	16,059	13,801
Held-to-maturity securities (fair value of ₩9,613 billion in 2005, ₩8,595 billion in 2006, ₩8,120 billion in 2007, ₩9,758 billion in 2008 and ₩16,021 billion ($13,767 million) in 2009)	9,638	8,614	8,216	9,612	15,974	13,727
Other investment assets[3]	1,397	1,568	2,051	2,417	2,565	2,204
Loans (net of allowance for loan losses of ₩1,525 billion in 2005, ₩1,855 billion in 2006, ₩1,736 billion in 2007, ₩2,942 billion in 2008 and ₩3,557 billion ($3,057 million) in 2009)	102,630	131,928	158,130	185,667	184,058	158,173
Due from customers on acceptances	355	267	249	789	791	680
Premises and equipment, net	2,060	2,149	2,399	2,454	2,611	2,244
Accrued interest and dividends receivable	703	865	950	1,079	956	821
Assets held for sale	49	81	132	351	591	508
Goodwill	48	38	232	136	114	98
Other assets[4]	3,223	3,121	3,601	3,653	3,180	2,731
Total assets	₩ 154,915	₩ 195,081	₩ 230,875	₩ 271,145	₩ 267,024	US$ 229,471
Liabilities						
Deposits						
Interest-bearing	₩ 99,609	₩ 121,688	₩ 140,359	₩ 161,653	₩ 170,547	US$ 146,562
Non-interest-bearing	4,538	4,851	4,668	6,679	7,027	6,038

Total deposits		104,147		126,539		145,027		168,332		177,574		152,600
Call money		326		2,270		3,008		2,960		5,687		4,888
Trading liabilities		1,339		1,701		2,981		11,286		4,131		3,550
Acceptances outstanding		355		267		249		789		791		680
Other borrowed funds		9,909		12,025		13,932		18,458		12,835		11,030
Secured borrowings		2,557		2,629		3,486		3,401		2,277		1,957
Long-term debt		21,850		32,298		41,336		44,470		43,340		37,245
Accrued interest payable		1,721		2,340		2,892		3,317		2,554		2,195
Other liabilities(2)(5)		4,379		4,531		5,494		5,871		4,613		3,964
Total liabilities		146,583		184,600		218,405		258,884		253,802		218,109
Stockholders equity		8,321		10,426		12,114		11,920		12,866		11,057
Noncontrolling interests(6)		11		55		356		341		356		305
Total equity		8,332		10,481		12,470		12,261		13,222		11,362
Total liabilities and equity	₩	154,915	₩	195,081	₩	230,875	₩	271,145	₩	267,024	US$	229,471

(1) Won amounts are expressed in U.S. dollars at the rate of ₩1,163.7 to US$1.00, the noon buying rate in effect on December 31, 2009 as quoted by the Federal Reserve Bank of New York in the United States.

(2) Commencing with the year ended December 31, 2007, we have reclassified deposits for severance payments from restricted cash to other liabilities. See Notes 4 and 20 of the notes to our consolidated financial statements.

(3) For a description of other investment assets, see Note 9 of the notes to our consolidated financial statements.

(4) For a description of other assets, see Note 15 of the notes to our consolidated financial statements.

(5) For a description of other liabilities, see Note 20 of the notes to our consolidated financial statements.

(6) On January 1, 2009, we adopted ASC 810-10-45-15. As a result, minority interests have been recharacterized as noncontrolling interests and reclassified as a component of equity. Corresponding items for all prior periods have been restated accordingly.

Profitability Ratios and Other Data

	Year ended December 31,				
	2005	2006	2007	2008	2009
	(in billions of Won except percentages)				
Return on average assets[1]	1.28%	1.13%	1.03%	0.06%	0.40%
Return on average equity[2]	24.45	18.70	20.41	1.17	9.55
Net interest spread[3]	2.59	2.37	2.16	1.99	1.81
Net interest margin[4]	2.73	2.50	2.28	2.16	1.86
Cost-to-income ratio[5]	54.33	48.99	51.30	64.04	50.29
Average stockholders equity as a percentage of average total assets	5.25	6.06	5.05	4.78	4.18
Total revenue[6]	₩ 9,125	₩ 11,789	₩ 14,414	₩ 16,860	₩ 16,725
Operating expense[7]	6,660	8,563	11,123	14,538	12,679
Operating margin[8]	2,465	3,226	3,291	2,322	4,046
Operating margin as a percentage of total revenue	27.01%	27.36%	22.83%	13.77%	24.19%

(1) Represents net income attributable to stockholders as a percentage of average total assets. Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.

(2) Represents net income attributable to stockholders as a percentage of average stockholders equity. Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.

(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,				
	2005	2006	2007	2008	2009
	(in billions of Won)				

Interest and dividend income	₩	7,209	₩	9,365	₩	12,192	₩	15,553	₩	13,273
Non-interest income		1,916		2,424		2,222		1,307		3,452
Total revenue	₩	9,125	₩	11,789	₩	14,414	₩	16,860	₩	16,725

(7) Operating expense represents interest expense plus non-interest expense, excluding provisions of ₩286 billion, ₩652 billion, ₩201 billion, ₩1,836 billion and ₩2,555 billion for 2005, 2006, 2007, 2008 and 2009, respectively.

The following table shows how operating expense is calculated:

	2005		2006		2007		2008		2009	
					(in billions of Won)					
Interest expense	₩	3,727	₩	5,465	₩	7,656	₩	10,402	₩	8,586
Non-interest expense		2,933		3,098		3,467		4,136		4,093
Operating expense	₩	6,660	₩	8,563	₩	11,123	₩	14,538	₩	12,679

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

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Asset Quality Data

	As of December 31,				
	2005	2006	2007	2008	2009
	(in billions of Won)				
Total loans	₩ 104,130	₩ 133,740	₩ 159,885	₩ 188,632	₩ 187,617
Total non-performing loans[1]	1,369	1,354	1,121	2,088	2,489
Other impaired loans not included in non-performing loans	820	391	274	1,608	2,887
Total non-performing loans and other impaired loans	2,189	1,745	1,395	3,696	5,376
Total allowance for loan losses	1,525	1,855	1,736	2,942	3,557
Non-performing loans as a percentage of total loans	1.31%	1.01%	0.70%	1.11%	1.33%
Non-performing loans as a percentage of total assets	0.88	0.69	0.48	0.77	0.93
Total non-performing loans and other impaired loans as a percentage of total loans	2.10	1.30	0.87	1.96	2.87
Allowance for loan losses as a percentage of total loans	1.46	1.39	1.09	1.56	1.90

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

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Segment Information Under Korean GAAP

The following table sets forth financial data under Korean GAAP as of or for the year ended December 31, 2009 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)				
erest and dividend come	₩ 10,485	₩ 1,143	₩ 907	₩ 1,000	₩ 651	₩ 416	₩ (48)	₩ 14,55
erest expense	6,739	604	489	128	304	449	(50)	8,66
t interest income ss)	3,746	539	418	872	347	(33)	2	5,89
ovision for loan ses and edit-related mmitments (reversal provision)	1,696	65	154	201	112	69	120	2,17
on-interest income	32,962	700	328	51	4,736	2,755	(1,698)	39,83
on-interest expenses	33,918	909	502	465	4,844	1,467	(418)	41,68
t non-interest come (loss)	(956)	(209)	(174)	(414)	(108)	1,288	(1,280)	(1,85
preciation and nortization	144	9	7		2	37	143	34
t income (loss) fore tax	950	256	83	257	125	1,149	(1,301)	1,51
come tax expense enefit)	190	63	21	62	36	34	(3)	40
t income (loss) for e period under orean GAAP	760	193	62	195	89	1,115	(1,298)	1,11
S. GAAP justments	65	(64)	16	8	(89)	(1,049)	1,109	(
onsolidated net come	₩ 825	₩ 129	₩ 78	₩ 203	₩	₩ 66	₩ (189)	₩ 1,11
onsolidated net come attributable to	1					17	(41)	(2

e noncontrolling erest																
nsolidated net come attributable to e stockholders		824		129		78		203				49		(148)		1,13
gments total assets der Korean GAAP	₩	223,063	₩	20,508	₩	15,902	₩	3,725	₩	16,103	₩	24,205	₩	(21,148)	₩	282,35
S. GAAP justments		(1,170)		(386)		1		167		(16,103)		(1,570)		3,727		(15,33
gments total assets	₩	221,893	₩	20,122	₩	15,903	₩	3,892	₩		₩	22,635	₩	(17,421)	₩	267,02

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

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

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Selected Financial Information

Average Balance Sheets and Related Interest

The following tables show our average balances and interest rates for 2007, 2008 and 2009:

	Year ended December 31,								
	2007			2008			2009		
	Average Balance(1)	Interest Income(2)(3)	Average Yield	Average Balance(1)	Interest Income(2)(3)(4)	Average Yield	Average Balance(1)	Interest Income(2)(3)	A
	(in billions of Won except percentages)								
arning assets									
rning deposits in s	₩ 2,431	₩ 82	3.38%	₩ 4,072	₩ 179	4.40%	₩ 4,679	₩ 195	
and securities under resale s	2,800	95	3.38	2,931	132	4.48	7,873	131	
curities(5)	9,894	390	3.94	11,038	524	4.75	14,241	409	
t securities(5)	35,764	1,996	5.58	34,636	2,102	6.07	37,400	1,774	
al and industrial	74,505	4,751	6.38	98,392	6,783	6.89	106,282	6,241	
ncing	184	20	11.04	349	28	8.10	301	32	
ncing	8,613	426	4.95	12,718	514	4.05	11,090	463	
mercial	5,899	337	5.71	9,021	690	7.65	7,538	631	
rpose household(6)	54,198	3,545	6.54	56,945	4,005	7.03	57,323	2,925	
	3,366	231	6.87	3,226	226	7.00	3,592	179	
ds(3)	874	319	36.52	1,383	282	20.27	1,556	293	
s(7)	147,639	9,629	6.52%	182,034	12,528	6.88%	187,682	10,764	
rage arning assets	198,528	12,192	6.14%	234,711	15,465	6.59%	251,875	13,273	
est-earning assets									
cash equivalents	7,528			10,992			8,987		
change contracts tives	1,676			8,094			6,991		
nd equipment	2,263			2,453			2,533		
customers on e	258			519			790		
e for loan losses	(1,699)			(2,147)			(3,430)		
-interest-earning	9,140			12,936			16,337		
rage non-interest- ssets	19,166			32,847			32,208		

rage assets	₩	217,694	₩	12,192	5.60%	₩	267,558	₩	15,465	5.78%	₩	284,083	₩	13,273

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	Year ended December 31,								
	2007			2008			2009		
	Average Balance(1)	Interest Expense	Average Cost	Average Balance(1)	Interest Expense	Average Cost	Average Balance(1)	Interest Expense	A
	(in billions of Won except percentages)								
es									
-bearing liabilities									
:									
deposits	₩ 24,912	₩ 68	0.27%	₩ 25,125	₩ 75	0.30%	₩ 27,652	₩ 77	
deposits	11,306	346	3.06	15,850	591	3.73	21,423	403	
te of deposit accounts	19,618	993	5.06	21,808	1,371	6.28	15,070	775	
ne deposits	76,989	3,502	4.55	92,498	4,867	5.26	111,828	4,217	
nstallment deposits	455	16	3.59	344	13	3.78	257	9	
posits	133,280	4,925	3.70	155,625	6,917	4.44	176,230	5,481	
ney	1,965	96	4.90	3,779	137	3.63	4,576	87	
ngs from the Bank of	1,035	30	2.94	943	28	3.01	1,376	20	
ort-term borrowings	13,124	594	4.52	13,001	699	5.34	14,002	450	
borrowings	4,018	180	4.47	3,838	192	5.00	3,422	143	
m debt	38,817	1,831	4.72	48,747	2,429	4.99	48,610	2,405	
erage interest-bearing s	192,239	7,656	3.98	225,933	10,402	4.60	248,216	8,586	
erest-bearing liabilities									
deposits	4,618			6,132			4,579		
exchange contracts and es	2,958			10,508			11,162		
nces outstanding	258			519			790		
n-interest-bearing s	6,634			11,678			7,450		
erage rest-bearing liabilities	14,468			28,837			23,981		
erage liabilities	206,707	7,656	3.70	254,770	10,402	4.08	272,197	8,586	
equity	10,987			12,788			11,886		
erage liabilities and	₩ 217,694	₩ 7,656	3.52%	₩ 267,558	₩ 10,402	3.89%	₩ 284,083	₩ 8,586	

(1) Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.

(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) Excludes an interest payment of ₩88 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest payment was excluded as it was a one-time event in response to the global financial crisis and the Bank of Korea generally does not pay interest on its required reserves.

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

(6) Includes home equity loans.

(7) Includes non-accrual loans.

(8) 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.

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 2008 compared to 2007 and 2009 compared to 2008. 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.

	2008 vs. 2007 Increase/(decrease) due to changes in			2009 vs. 2008 Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total[1]
	(in billions of Won)					
Interest-earning assets						
Interest-earning deposits in other banks	₩ 56	₩ 41	₩ 97	₩ 27	₩ (11)	₩ 16
Call loans and securities purchased under resale agreements	4	33	37	221	(222)	(1)
Trading securities	45	89	134	152	(267)	(115)
Investment securities	(63)	169	106	168	(496)	(328)
Loans						
Commercial and industrial	1,526	506	2,032	544	(1,086)	(542)
Lease financing	19	(11)	8	(4)	8	4
Trade financing	204	(116)	88	(65)	14	(51)
Other commercial	178	175	353	(113)	54	(59)
General purpose household[2]	179	281	460	27	(1,107)	(1,080)
Mortgage	(9)	4	(5)	26	(73)	(47)
Credit cards	186	(223)	(37)	33	(22)	11
Total interest income	2,325	948	3,273	1,016	(3,208)	(2,192)
Interest-bearing liabilities						
Deposits						
Demand deposits	1	6	7	8	(6)	2
Savings deposits	139	106	245	208	(396)	(188)
Certificate of deposit accounts	111	267	378	(424)	(172)	(596)
Other time deposits	705	660	1,365	1,016	(1,666)	(650)
Mutual installment deposits	(4)	1	(3)	(3)	(1)	(4)
Call money	89	(48)	41	29	(79)	(50)
Borrowings from the Bank of Korea	(2)	0	(2)	13	(21)	(8)
Other short-term borrowings	79	26	105	49	(298)	(249)
Secured borrowings	(9)	21	12	(21)	(28)	(49)
Long-term debt	469	129	598	(2)	(22)	(24)
Total interest expense	1,578	1,168	2,746	873	(2,689)	(1,816)

Net interest income	₩ 747	₩ (220)	₩ 527	₩ 143	₩ (519)	₩ (376)

(1) Excludes an interest payment of ₩88 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest payment was excluded as it was a one-time event in response to the global financial crisis and the Bank of Korea generally does not pay interest on its required reserves.

(2) Includes home equity loans.

Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2009, which was ₩1,163.7 to US$1.00. We do not intend to imply 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 18, 2010, the noon buying rate was ₩1,202.6 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	**High**	**Average[1]**	**Period-End**
2005	₩ 997.0	₩ 1,059.8	₩ 1,023.8	₩ 1,010.0
2006	913.7	1,002.9	954.3	930.0
2007	903.2	950.2	929.0	935.8
2008	935.2	1,507.9	1,098.7	1,262.0
2009	1,149.0	1,570.1	1,274.6	1,163.7
December	1,149.0	1,185.4	1,163.3	1,163.7
2010 (through June 18)	1,104.0	1,253.2	1,151.0	1,202.6
January	1,120.0	1,163.1	1,138.2	1,158.7
February	1,144.0	1,170.0	1,155.7	1,159.0
March	1,128.0	1,153.0	1,136.1	1,131.2
April	1,104.0	1,126.3	1,115.5	1,108.0
May	1,115.0	1,253.2	1,164.8	1,194.5
June (through June 18)	1,198.5	1,250.4	1,223.0	1,202.6

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 ₩55,144 billion, or 41.2% of our total loans, as of December 31, 2006 to ₩82,601 billion, or 44.0% of our total loans, as of December 31, 2009. As of December 31, 2009, on a Korean GAAP basis, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were ₩1,383 billion, representing 0.8% of such loans to those enterprises. On a Korean GAAP basis, we recorded charge-offs of ₩862 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2009, compared to charge-offs of ₩253 billion in 2008. According to data compiled by the Financial Supervisory Service, the industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises increased in 2008 and through most of 2009. The delinquency ratio for small- and medium-sized enterprises is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won on a Korean GAAP basis increased from 0.9% as of December 31, 2007 to 1.4% as of December 31, 2008 but decreased to 0.9% as of December 31, 2009. Our delinquency ratio may increase in 2010 as a result of, among other things, adverse economic conditions in Korea and globally. See Other risks relating to our business Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance. Accordingly, we may be required to take measures to decrease our exposures to these customers.

In light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. For example, in connection with a government program announced in October 2008 to guarantee certain foreign currency-denominated debt of Korean banks, the Korean government requested Korean banks, including our banking subsidiaries Woori Bank, Kyongnam Bank and Kwangju Bank, to enter into a memorandum of understanding relating to the rationalization of their management operations. Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into such a memorandum of understanding with the Financial Supervisory Service in November 2008, pursuant to which they were each required, among other things, to help improve the liquidity position of small-and medium-sized enterprises and exporters by providing them with adequate financing and to endeavor to alleviate burdens on low-income debtors by extending maturity dates or by delaying interest payments on loans owed to them. In addition, the Korean government requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track programs established by Woori Bank, Kyongnam Bank and Kwangju Bank, which are effective through June 30, 2010, liquidity assistance is provided to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short-term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by such banks. The overall prospects for the Korean economy in 2010 and beyond remain uncertain, and the Korean government may extend existing policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. Our participation in such government-led initiatives may lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprises resulting from such government-led initiatives may have a material adverse effect on our results of operations and financial condition.

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 and global 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.

In addition, many small- and medium-sized enterprises have close business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans. In recent years, some Korean large corporations have expanded into China and other countries with lower labor costs and other expenses through relocating their production plants and facilities to such countries, which may have a material adverse impact on such small- and medium-sized enterprises.

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Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea and globally, as well as aggressive marketing and intense competition among banks to lend to this segment in recent years, 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.

We have exposure to Korean construction and shipbuilding companies, and financial difficulties of these companies may adversely impact us.

As of December 31, 2009, the total amount of loans provided by us to construction and shipbuilding companies in Korea amounted to ₩12,914 billion and ₩1,860 billion, or 6.9% and 1.0% of our total loans, respectively. We also have other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts. In the case of construction companies, we also have potential exposures in the form of guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects, as well as commitments to purchase asset-backed securities secured by the assets of companies in the construction industry and other commitments we enter into relating to project financing for such real estate projects which may effectively function as guarantees. In October 2009, we received a reprimand from the Financial Supervisory Service about our prior internal approval processes and the activities of certain responsible officers and employees of Woori Bank s trust management operations in connection with such commitments, and we took certain remedial actions in response to such reprimand.

The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy commencing in the second half of 2008. In October 2008, the Korean government implemented a ₩9 trillion support package for the benefit of the Korean construction industry, including a program to buy unsold housing units and land from construction companies. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In response to the deteriorating financial condition and liquidity position of borrowers in the construction and shipbuilding industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Korean government implemented a program in the first half of 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including Woori Bank, Kyongnam Bank and Kwangju Bank) and the Korean government. However, there is no assurance that these measures will be successful in stabilizing the Korean construction and shipbuilding industries.

The allowances that we have established against our credit exposures to Korean construction and shipbuilding companies may not be sufficient to cover all future losses arising from these and other exposures. If the credit quality of our exposures to Korean construction and shipbuilding companies declines, we may be required to take substantial additional loan loss provisions, which could adversely impact our results of operations and financial condition. Furthermore, although a portion of our loans to construction and shipbuilding companies are secured by collateral, such collateral may not be sufficient to cover uncollectible amounts in respect of such loans.

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, 2009, 12 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 ₩31,312 billion, or 12.3% 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, 2009, our 20 largest exposures to corporate borrowers totaled ₩36,831 billion, which represented 14.4% of our total exposures. As of that date, our single largest corporate exposure was to the Bank of Korea, to which we had outstanding credits in the form of debt securities of ₩11,291 billion, representing 4.4% of our total exposures. Aside from exposure to the Bank of Korea and other government-related agencies, our next largest exposure was to STX Offshore & Shipbuilding Co., Ltd., to which we had outstanding exposure of ₩1,975 billion representing 0.8% of our total exposures. Any deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

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

As of December 31, 2009, our credit exposures to companies that were in workout or corporate restructuring amounted to ₩1,523 billion or 0.7% of our total credit exposures, of which ₩598 billion or 39.3% 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 ₩533 billion, or 35.0% 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, 2009 to companies in workout or restructuring amounted to ₩1,570 billion, or 0.6% of our total exposures. Our exposures to such companies may also increase in the future, including as a result of adverse conditions in the Korean economy. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions holding 75% or more of the total outstanding debt (as well as 75% or more of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms, which may adversely affect our results of operations and financial condition.

We have exposure to member companies of the Kumho Asiana Group, and financial difficulties of these companies may adversely impact us.

Several member companies of the Kumho Asiana Group, one of Korea s largest chaebols, have been experiencing financial difficulties, including as a result of their heavily leveraged acquisition of Daewoo Engineering & Construction Co., Ltd. in 2006 and the subsequent global financial crisis commencing in the second half of 2008. In January 2010, Kumho Tires Co., Inc. and Kumho Industrial Co., Ltd. agreed with their creditors, including us, to begin an out-of-court debt restructuring program under the Corporate Restructuring

Promotion Act. In addition, Kumho Petrochemical Co., Ltd. and Asiana Airlines announced that they would undergo a voluntary restructuring, in return for which their creditors, including us, agreed to a suspension of payments on the two companies debt until the end of 2010. These four companies are member companies of the Kumho Asiana Group. As of December 31, 2009, our aggregate direct credit exposures to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines, consisting primarily of loans extended to such companies, amounted to ₩1,456 billion, of which ₩694 billion were classified as substandard or below. As of December 31, 2009, our allowances for credit losses with respect to such direct credit exposures amounted to ₩277 billion. In addition, as of December 31, 2009, we had other exposures to such companies, consisting primarily of project finance-related exposures, in the aggregate amount of ₩542 billion, with respect to which we have established allowances for credit losses of ₩33 billion. We also had exposure relating to put options granted to us in connection with our co-investment in Daewoo Engineering & Construction with the Kumho Asiana Group (although such put options are not recorded as part of our assets in our consolidated financial statements prepared under U.S. GAAP). The fair value of our holdings of Daewoo Engineering & Construction shares was ₩150 billion as of December 31, 2009. Moreover, in the first quarter of 2010, we extended additional loans to such companies in the aggregate amount of approximately ₩96 billion, to provide additional liquidity in connection with such companies restructuring programs. We also converted an aggregate of ₩113 billion of our loans to such companies into equity interests in such companies in connection with such restructuring programs. Our allowances may not be sufficient to cover all future losses arising from our exposures to these companies. Furthermore, in the event that the financial condition of these companies deteriorates further in the future, we may be required to record additional provisions for credit losses, as well as charge-offs and valuation or impairment losses or losses on disposal, which may have a material adverse effect on our financial condition and results of operations.

Risks relating to our consumer credit portfolio

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

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans has grown from ₩55,705 billion as of December 31, 2006 to ₩62,049 billion as of December 31, 2009. Our credit card portfolio has also increased from ₩2,405 billion as of December 31, 2006 to ₩4,098 billion as of December 31, 2009. As of December 31, 2009, our consumer loans and credit card receivables represented 33.1% and 2.2% of our total lending, respectively.

The rapid growth in our consumer loan portfolio in recent years, together with adverse economic conditions in Korea and globally, may lead to increasing delinquencies and a deterioration in asset quality. Our consumer loans classified as substandard or below decreased from ₩362 billion, or 0.7% of our consumer loan portfolio, as of December 31, 2006 to ₩268 billion, or 0.4% of our consumer loan portfolio, as of December 31, 2009. We charged off consumer loans amounting to ₩486 billion in 2009, as compared to ₩119 billion in 2008, and recorded provisions in respect of consumer loans of ₩310 billion in 2009, as compared to ₩34 billion in 2008. 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 ₩28,117 billion, or 50.5% of our total outstanding consumer loans, as of December 31, 2006 to ₩30,801 billion, or 49.6% of our total outstanding consumer loans, as of December 31, 2009.

In our credit card segment, outstanding balances overdue by 30 days or more decreased from ₩203 billion, or 8.5% of our credit card receivables, as of December 31, 2006 to ₩100 billion, or 2.4% of our credit card receivables, as of December 31, 2009. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2009, these restructured loans amounted to ₩35 billion, or 0.9% of our credit card balances. Because these restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our credit card balances. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 3.3% of our credit card balances as of December 31, 2009. We charged off credit card balances amounting to ₩203 billion in 2009, as compared to ₩113 billion in 2008, and recorded provisions in respect of credit card balances of ₩125 billion in 2009, as compared to ₩90 billion in 2008. Delinquencies may increase in the future as a result of, among other things, adverse economic conditions 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.

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

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following a one-year extension by the Korean government, is expected to continue until April 2011. Under the pre-workout program, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than ₩500 million who are in arrears on their payments for more than 30 days but less than 90 days. Our participation in such pre-workout program and other government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 60% of the appraised value of collateral (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 60% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in the real estate markets in Korea in recent years resulted in declines in the value of the collateral securing our mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any future 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

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

Our success under a financial holding company structure depends on our ability to take advantage of our large existing base of retail and corporate banking customers and to implement a strategy of developing and cross-selling diverse financial products and services to them. As part of this strategy, we have standardized our subsidiaries risk management operations (except with respect to operational risk), including with respect to credit risk management following systems upgrades completed in 2007. We also plan to continue to diversify our product offerings through, among other things, increased marketing of insurance products and expansion of our investment banking and investment trust operations. The continued implementation of these plans may

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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 mergers or acquisitions that we may pursue.

Our success under a financial holding company structure depends on our ability to implement our reorganization and integration plan and to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our various subsidiaries. As part of this plan, between December 2001 and February 2002 we merged the commercial banking business of Peace Bank of Korea into Woori Bank, converted Peace Bank of Korea into a credit card subsidiary, Woori Credit Card, and transferred the credit card business of Woori Bank to Woori Credit Card. We also transferred the credit card business of Kwangju Bank to Woori Credit Card in March 2003. In light of the deteriorating business performance of Woori Investment Bank and with the objective of restructuring the group platform, we merged Woori Investment Bank with Woori Bank in August 2003. In March 2004, in response to the liquidity problems of Woori Credit Card stemming from the deteriorating asset quality of its credit card portfolio, we merged Woori Credit Card with Woori Bank. Although we currently intend for our commercial banking subsidiaries to continue to operate as separate legal entities within our financial holding company structure and to maintain separate loan origination and other functions, we have standardized our subsidiaries risk management operations (except with respect to operational risk), including with respect to credit risk management following systems upgrades completed in 2007. In October and December 2004, we also acquired a 27.3% voting interest in LGIS, a leading domestic securities firm. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. See Item 4B. Business Overview Business Capital Markets Activities Securities Brokerage. In May 2005, we purchased a 90.0% direct ownership interest in LG Investment Trust Management, or LGITM, from LGIS. We subsequently merged Woori Investment Trust Management, our wholly-owned asset management subsidiary, into LGITM and renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary. In July and September 2005, Woori Asset Management reacquired the remaining 10.0% interest from its minority shareholders. In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse. Following this transfer, we renamed the entity Woori Credit Suisse Asset Management. In October 2009, we reacquired Credit Suisse s 30.0% interest in Woori Credit Suisse Asset Management and renamed the entity Woori Asset Management. Furthermore, we acquired a 51.4% interest in Hanmi Capital in September 2007, which was subsequently renamed Woori Financial, and acquired a 51.0% interest in LIG Life Insurance in April 2008, which was subsequently renamed Woori Aviva Life Insurance. Woori Financial became a consolidated subsidiary, while we account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP. As part of our business plan, we, through Woori Bank, Kyongnam

Bank and Kwangju Bank, have also entered into bancassurance marketing arrangements with third party insurance companies. See Item 4B. Business Overview Business Other Businesses Bancassurance.

The Korean government has announced that it plans to dispose of or reduce its controlling interest in us, including potentially through a merger between us and another Korean financial institution. In addition, as part of our strategy, we intend to continue to seek opportunities to expand our overseas operations, including potentially through acquisitions and investments in the U.S., Europe and Asia. The integration of our subsidiaries separate businesses and operations, as well as those of any companies we may merge with or acquire in the future, could require a significant amount of time, financial resources and management attention, and may result in increased capital requirements and greater credit and other exposures. Moreover, the integration 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 mergers or acquisitions or otherwise, and the realization of the anticipated benefits of our financial holding company structure and any mergers or acquisitions we decide to pursue 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 merge with or 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, the Financial Investment Services and Capital Markets 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 mergers or acquisitions that we pursue, and our business, results of operations and financial condition may suffer as a result.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks relating to competition

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

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

In addition, we believe that regulatory reforms, including the Financial Investment Services and Capital Markets Act which became effective in February 2009, 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 past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005 and Chohung Bank s merger with Shinhan Bank in April 2006. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank, while the Lone Star funds have announced that they plan to sell their controlling interest in Korea Exchange Bank. Other financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

In recent years, we have faced increasing pricing pressure on deposit products from our competitors. If we do not continue to offer competitive interest rates to our deposit customers, we may lose their business. In addition, even if we are able to match our competitors pricing, doing so may result in an increase in our funding costs, which may have an adverse impact on our results of operations.

Other risks relating to our business

Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.

During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late

July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers Holdings Inc., or Lehman Brothers, the acquisition of Merrill Lynch & Co., Inc. by the Bank of America Corp., the acquisition of Wachovia Corporation by Wells Fargo & Co., U.S. federal government conservatorship of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and Washington Mutual, Inc. and the U.S. federal government s loans to American International Group Inc., or AIG, in exchange for an equity interest. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. Such policy measures implemented by the Korean government and the Bank of Korea included a guarantee program to guarantee foreign currency-denominated debt incurred by Korean banks and their overseas branches, currency swap arrangements with U.S. and Chinese monetary authorities, one-time interest payments to Korean banks with respect to their required reserve deposits with the Bank of Korea (which typically does not pay interest) and the establishment of a ₩20 trillion bank recapitalization fund (from which our banking subsidiaries and we received an aggregate of ₩1.7 trillion of capital in the form of the fund s purchases of hybrid Tier I securities and subordinated debt securities in March 2009). In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 3.25% in order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs stabilization and possible improvement, the overall prospects for the Korean and global economy in 2010 and beyond remain uncertain. For example, in November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company. In addition, many governments worldwide, in particular in Greece and other countries in southern Europe, are showing increasing signs of fiscal stress and may experience difficulties in meeting their debt service requirements. Any of these or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are considering or are in the process of implementing exit strategies, in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are exposed to adverse developments in the U.S. mortgage market through our holdings of collateralized debt obligations related to U.S. mortgage loans. As of December 31, 2009, we held, through Woori Bank, approximately ₩505 billion in face value of collateralized debt obligations. We recognized impairment losses of ₩332 billion in 2008 and ₩14 billion in 2009 with respect to our holdings of collateralized debt obligations. We are also exposed to adverse developments in the U.S. and global credit markets through our holdings of derivatives. As of December 31, 2009, our total exposure under credit derivatives outstanding was approximately ₩633 billion (including ₩108 billion of credit derivatives relating to Korean companies), principally through credit default swaps and total return swaps held by Woori Bank. We recognized losses on valuation of our credit derivatives amounting to ₩370 billion in 2008. In 2009, we recognized a gain on valuation of our credit derivatives amounting to ₩90 billion, principally due to improved conditions in the U.S. credit markets. Adverse developments in the U.S. sub-prime mortgage and U.S. and global credit markets could result in additional losses on collateralized debt obligations as well as credit derivatives held by us. In addition, due in part to our losses on collateralized debt obligations and other credit derivatives in recent years, the Financial Services Commission and the KDIC imposed an institutional warning on us and Woori Bank, as well as sanctions on certain current and former executive officers of Woori Bank, in September 2009. See 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 and Risks relating to government regulation and policy The Financial Services Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities. Beginning in the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been an overall decline and continuing volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest, which have resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method.

Our risk management system may not be effective in mitigating risk and loss.

We seek to monitor and manage our risk exposure through a group-wide, standardized risk management system, encompassing a multi-tiered risk management governance structure under our Group Risk Management Committee, standardized credit risk management systems for our banking subsidiaries based on Woori Bank s centralized credit risk management system called the CREPIA system, reporting and monitoring systems, early warning systems and other risk management infrastructure, using a variety of risk management strategies and techniques. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. However, such risk management strategies and techniques employed by us and the judgments that accompany their application cannot anticipate the economic and financial outcome in all market environments, and many of the our risk management strategies and techniques have a basis in historic market behavior that may limit the effectiveness of such strategies and techniques in times of significant market stress or other unforeseen circumstances. Furthermore, our risk management strategies may not be effective in a difficult or less liquid market environment, as other market participants may be attempting to use the same or similar strategies as us to deal with such market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants.

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2010. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As a result of deteriorating economic and financial market conditions in Korea and globally, both we and Woori Bank failed to meet our respective return on assets targets, expense-to-revenue ratio targets and operating income per employee targets as of December 31, 2008. In September 2009, the KDIC imposed an institutional warning on us and Woori Bank, as well as reprimands and warnings on 11 current and former executive officers of Woori Bank, in connection with our and Woori Bank s failures to meet such financial targets, including as a result of losses incurred on collateralized debt obligations and other credit derivatives. We, Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in March 2009. In February 2010, the KDIC imposed another institutitional warning on Woori Bank in connection with its failure to meet its financial targets with respect to operating income per employee as of September 30, 2009.

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, 2009, the aggregate amount of assets we had provided as collateral for our secured borrowings was ₩2,884 billion. As of that date, we had established allowances of ₩26 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.

Commencing in the second half of 2008, interest rates in Korea have declined to historically low levels as the government has sought to stimulate the economy through active rate-lowering measures. As of December 31, 2009, approximately 97.2% of the debt securities our banking subsidiaries hold pay interest at a fixed rate. All else being equal, an increase in interest rates in the future, including as part of the Korean government s exit strategy with respect to the economic stimulus measures adopted in response to the global financial crisis, would lead to a decline in the value of traded debt securities. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

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

Our banking subsidiaries meet a significant amount of their funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2009, approximately 92.5% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In the event that a substantial number of these short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-

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yielding investment opportunities emerge, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance their operations. See Item 5B. Liquidity and Capital Resources Financial Condition Liquidity.

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 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, 2009, 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 ₩17,829 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated balance sheet is determined by references to suggested prices posted by Korean rating agencies or the Korea Securities Dealers Association. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

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

Under the capital adequacy requirements of the Financial Services Commission, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated Korean GAAP basis, of 8.0%. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the current terms of 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

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Korean Government. As of December 31, 2009, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Services Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

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

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

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

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank 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 currently use a standardized approach. In October 2008, the Financial Supervisory Service approved Woori Bank s internal ratings-based approach for credit risk. For regulatory reporting purposes, from September 30, 2008, Woori Bank has implemented its internal ratings-based approach for credit risk, beginning with its credit risk with respect to retail, small- and medium-size enterprises and large corporate loans and asset-backed securities portfolios, and plans to further implement its internal ratings-based approach to its specialized lending portfolio upon approval by the Financial Supervisory Service. A standardized approach will be used in measuring credit risk for those classes of exposure for which Woori Bank s internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the Korean government, public institutions and other banks) for which the internal ratings-based approach will not be applied. Woori Bank plans to implement an advanced internal ratings-based approach for credit risk in the near future. Woori Bank also implemented a standardized approach for operational risk beginning on January 1, 2008, and implemented an advanced measurement approach for operational risk in June 2009. For internal measurement purposes, Woori Bank began to implement an advanced internal ratings-based approach for credit risk commencing in 2005 and an advanced measurement approach for operational risk commencing in 2008.

While we believe that Woori Bank s implementation of an internal ratings-based approach in 2008 has increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank s credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. After further impact assessment, the Basel Committee on Banking Supervision is expected to implement the new set of measures in 2012. The timing and scope of implementation of such measures in Korea remain uncertain. The implementation of such measures in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

See 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.

The adoption of the Korean equivalent of International Financial Reporting Standards may adversely affect our reported financial condition and results of operations.

In March 2007, the Financial Services Commission and the Korea Accounting Institute announced a road map for the adoption of the Korean equivalent of International Financial Reporting Standards, or IFRS, pursuant to which all listed companies in Korea will be required to prepare their annual financial statements under IFRS beginning in 2011. In December 2008, the Korea Accounting Standards Board published the full text of the Korean equivalent of IFRS, or Korean IFRS. However, as the application of Korean IFRS is still voluntary, and as there is not yet a significant body of established practice on which to draw in forming judgments regarding its implementation and application, it is not possible to estimate with any degree of certainty the impact that the adoption of Korean IFRS will have on our financial reporting. Accordingly, there can be no assurance that the mandatory adoption of Korean IFRS beginning in 2011 will not adversely affect our reported financial condition and results of operations.

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 56.97% of our outstanding common stock. So long as the Korean government remains our controlling stockholder, it will have the ability to cause us to take actions or pursue policy objectives that may conflict with the interests of our other stockholders. For example, in order to further its public policy goals, the Korean government could request that we participate with respect to a takeover of a troubled financial institution or encourage us to provide financial support to particular entities or sectors. Such actions or others that are not consistent with maximizing our profits or the value of our common stock may have an adverse impact on our results of operations and financial condition and may cause the price of our common stock and ADSs to decline.

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

Risks relating to government regulation and policy

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

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

In the past, the Korean government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See 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.

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

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

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

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

In September 2009, the Financial Services Commission imposed an institutional warning on us and Woori Bank in connection with Woori Bank s losses on collateralized debt obligations and other credit derivatives in recent years. The Financial Services Commission also required Woori Bank to enter into a memorandum of understanding with the Financial Supervisory Service, which was entered into in December 2009 and required Woori Bank to implement specific measures to improve its risk management systems and internal controls (including with respect to its board practices, investment and credit risk management-related processes, compliance monitoring and internal audit practices). In addition, the Financial Services Commission imposed warnings and reprimands on certain of Woori Bank s current and former executive officers, including current and former chief executive officers of Woori Bank. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition.

The Financial Investment Services and Capital Markets Act may result in increased competition in the Korean financial services industry.

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

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

Risks relating to Korea

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. The economic indicators in Korea in recent years have shown mixed signs of growth and uncertainty, and future growth of the economy is subject to many factors beyond our control.

Recent difficulties affecting the U.S. and global financial sectors, adverse conditions and volatility in the worldwide credit and financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have increased the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition. Beginning in the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been an overall decline and continuing volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index (known as the KOSPI) declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI has recovered to a significant extent in 2009 and into 2010, there is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may continue to adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

- difficulties in the housing and financial sectors in the United States and elsewhere and the resulting adverse effects on the global financial markets;

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including 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;

adverse conditions 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;

substantial decreases in the market prices of Korean real estate;

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

declines in consumer confidence and a slowdown in consumer spending;

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

social and labor unrest;

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

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

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

the economic impact of any pending or future free trade agreements;

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

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

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

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

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

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

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In recent years, there have been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. In December 2002, North Korea removed the seals and surveillance equipment from its Yongbyon nuclear power plant and evicted inspectors from the United Nations International Atomic Energy Agency. In January 2003, North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty. Since the renouncement, Korea, the United States, North Korea, China, Japan and Russia have held numerous rounds of six party multi-lateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program.

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

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action, including through inspection of cargo to or from North Korea. In response, North Korea agreed in February 2007 at the six-party talks to shut down and seal the Yongbyon nuclear facility, including the reprocessing facility, and readmit international inspectors to conduct all necessary monitoring and verifications.

In April 2009, North Korea launched a long-range rocket over the Pacific Ocean. Korea, Japan and the United States responded that the launch poses a threat to neighboring nations and that it was in violation of the United Nations Security Council resolution adopted in 2006 against nuclear tests by North Korea, and the United Nations Security Council unanimously passed a resolution that condemned North Korea for the launch and decided to tighten sanctions against North Korea. Subsequently, North Korea announced that it would permanently pull out of the six party talks and restart its nuclear program, and the International Atomic Energy Agency reported that its inspectors had been ordered to remove surveillance devices and other equipment at the Yongbyon nuclear power plant and to leave North Korea. In May 2009, North Korea announced that it had successfully conducted a second nuclear test and test-fired three short-range surface-to-air missiles. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In July 2009, North Korea test-fired several additional ballistic missiles into the sea between Korea and Japan. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. In May 2010, the Korean government formally accused North Korea of causing the sinking and is seeking United Nations Security Council sanctions for the act. North Korea has threatened retaliation for any attempt to punish it over the incident.

In addition, there recently has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for economic and political stability in the region. In June 2009, U.S. and Korean officials announced that Kim Jong-il, the North Korean ruler who reportedly suffered a stroke in August 2008, designated his third son, who is reportedly in his twenties, to become his successor. The succession plan, however, remains uncertain. In addition, North Korea s economy faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

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

Labor unrest in Korea may adversely affect our operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate was 3.7% in 2005 and decreased to 3.5% in 2006 and to 3.2% in 2007 and 2008, but increased to 3.6% in 2009 primarily as a result of adverse economic conditions in Korea. Further increases 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.

Risks relating to our common stock and ADSs

The market price of our common stock and ADSs could be adversely affected by the ability of the KDIC to sell or otherwise dispose of large blocks of our common stock.

The KDIC currently owns 459,198,609 shares, or 56.97%, of our outstanding common stock. In the future, the KDIC may choose to sell large blocks of our common stock publicly or privately to a strategic or financial investor, including for the purpose of recovering the public funds it injected into our subsidiaries to recapitalize them. For example, in September 2004, the KDIC sold approximately 45 million shares of our common stock, which constituted 5.7% of our outstanding common stock, and in June 2007, the KDIC disposed of approximately 40 million shares of our common stock, which constituted 5.0% of our outstanding common stock. In addition, in November 2009, the KDIC sold approximately 56 million shares of our common stock, which constituted 7.0% of our outstanding common stock. Most recently, in April 2010, the KDIC disposed of approximately 73 million shares of our common stock, which constituted 9.0% of our outstanding common stock.

According to the privatization plans announced by the KDIC, the KDIC will seek to either 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, or reduce its holdings potentially through a merger between us and another Korean financial institution, in each case in a manner consistent with its mandate from the Korean government to maximize its returns and contribute to the development of the Korean financial industry in connection with such disposal. However, such plans are subject to change depending on market conditions and other factors. Accordingly, we do not know when, how or what percentage of our shares owned by the KDIC will be disposed of, or to whom such shares will be sold, or when, how and with whom the KDIC will seek to merge us. As a result, we cannot predict the impact of any such transactions 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 any future merger between us and another Korean financial institution, or the possibility that such transactions may occur, could adversely affect 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 bank 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 9.0%. The Korean government and the KDIC are exempt from this limit, and investors may also exceed the 10.0% limit upon approval by the Financial Services Commission. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Ownership of a Financial Holding Company. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds the applicable limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal.

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

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

ADSs must withdraw the underlying common stock from the ADS facility (and incur charges relating to that withdrawal) and become our direct stockholder prior to the record date of the stockholders meeting at which the relevant transaction is to be approved, in order to exercise dissent and appraisal rights.

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

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

You will not have preemptive rights in some circumstances.

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

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

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

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

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

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

Our common stock is listed on the KRX KOSPI Market, 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 KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. The KOSPI was 1,739.9 on June 24, 2010. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

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

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

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

Other Risks

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

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

Item 4. INFORMATION ON THE COMPANY

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

Overview

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

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

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

Our legal and commercial name is Woori Finance Holdings Co., Ltd. Our registered office and corporate headquarters are located at 203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea. Our telephone number is 822-2125-2000. Our website address is *http://www.woorifg.com.*

History

Establishment of Woori Finance Holdings

In response to the financial and economic downturn beginning in late 1997, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector. As part of these measures, on October 1, 1998, the KDIC purchased 95.0% of the outstanding shares of Hanvit Bank (which was at the time named the Commercial Bank of Korea) and 95.6% of the outstanding shares of Hanil Bank (which was subsequently merged into Hanvit Bank). These banks had suffered significant losses in 1997 and 1998. 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.

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

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

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

The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC in two parts. The first part of this recapitalization would comprise capital injections of approximately ₩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 ₩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 (₩2,764 billion), Kyongnam Bank (₩259 billion), Kwangju Bank (₩170 billion) and Peace Bank of Korea (₩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 (₩1,877 billion), Kyongnam Bank (₩94 billion), Kwangju Bank (₩273 billion) and Peace Bank of Korea (₩339 billion). These subsequent capital contributions were made pursuant to a memorandum of understanding entered into among the KDIC and the four commercial banks on December 30, 2000. The terms of the memorandum of understanding provided that the four banks would subscribe for bonds issued by the KDIC in an aggregate principal amount equal to the capital contribution amount agreed to by the KDIC, and that the KDIC would then pay the subscription price back to the banks as capital contributions. From the perspective of the KDIC, the issuance of the bonds avoided the need to raise additional cash in connection with the capital contributions. From the perspective of the banks, the KDIC bonds qualified as low-risk assets that helped increase their capital adequacy ratios. The KDIC bonds also paid interest at market rates and were liquid instruments that could be readily sold in the market by the banks for cash.

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

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

In January 2001, Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank agreed in principle to consolidate and become subsidiaries of a new financial holding company. In July 2001, each entity entered into a memorandum of understanding with us, and we entered into a separate memorandum of understanding with the KDIC. These memoranda of understanding along with those entered with between our subsidiaries and the KDIC, which are described in more detail below, established the basis for the relationships among us, our subsidiaries and the KDIC. These memoranda set forth, among other things, financial targets and restructuring objectives that we and our subsidiaries were expected to satisfy in order to 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 KRX KOSPI Market on June 24, 2002.

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

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

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

Relationship with the Korean Government

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

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

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

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

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

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

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

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

Our subsidiaries entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC on April 2005. In addition to the new restructuring measures and financial targets, the plan primarily dealt with ways to reduce labor cost and increase employees productivity and efficiency in our subsidiaries. Each of Woori Bank, Kyongnam Bank and Kwangju Bank met its financial targets under the plan. Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with the KDIC in April 2007. As a result of deteriorating economic and financial market conditions in Korea and globally, Woori Bank failed to meet its return on assets target, its expense-to-revenue ratio target and its operating income per employee target as of December 31, 2008. In September 2009, the KDIC imposed an institutional warning on Woori Bank, as well as reprimands and warnings on 11 current and former executive officers of Woori Bank (including its current and former chief executive officers), in connection with Woori Bank s failure to meet such financial targets, including as a result of losses incurred on collateralized debt obligations and other credit derivatives.

Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with the KDIC in March 2009. See Recent Developments with the KDIC.

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

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

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

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

Pursuant to the terms of this memorandum of understanding, we entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in April 2005. In addition to the new restructuring measures and financial targets, the plan primarily dealt with ways to increase labor efficiency and to set up a comprehensive financial network for increased synergy among the group members and strengthening our incentive-based management system. We met all of our financial targets under the plan. We entered into a new business normalization plan with the KDIC in April 2007. As a result of deteriorating economic and financial market conditions in Korea and globally, we failed to meet our return on assets target, our expense-to-revenue ratio target and our operating income per employee target as of December 31, 2008. In September 2009, the KDIC imposed an institutional warning on us in connection with our failure to meet such financial targets. We entered into a new business normalization plan with the KDIC in March 2009. In March 2010, three of the financial targets for 2010 under such business normalization plan, which were the expense-to-revenue ratio, operating income per employee and holding company expense ratio, were adjusted by the KDIC. See Recent Developments with the KDIC.

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

- cooperating with us to develop an integrated management and support system for us to oversee the operations of our subsidiaries;
- disposing of redundant branches and certain subsidiaries;
- adopting U.S. GAAP accounting; and
- cooperating with us to consolidate our risk management operations and information technology systems, establish an information technology subsidiary, consolidate our credit card business, dispose of non-performing assets and establish our asset management subsidiary.

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

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

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

The specified financial targets for 2009 and 2010 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 March 2009, we and Woori Bank, Kyongnam Bank and Kwangju Bank each entered into a new two-year business normalization plan with the KDIC that included new restructuring measures and financial targets. In addition, the plan primarily dealt with ways to increase labor efficiency and to set up a comprehensive financial network for increased synergy among the group members and strengthening our incentive-based management system. The other terms of the previously agreed memoranda of understanding remain unchanged.

Our two-year business normalization plan sets forth the basis on which we should manage the normalization and integration of our subsidiaries operations as well as return the public funds that were injected into those subsidiaries. The business normalization plan sets forth six financial targets for each quarter of 2009 and 2010 that we are required to meet on a Korean GAAP basis. In February 2010, the KDIC imposed an institutional warning on Woori Bank in connection with its failure to meet its financial target with respect to operating income per employee as of September 30, 2009. In March 2010, three of the financial targets for 2010 under such business normalization plan, which were the expense-to-revenue ratio, operating income per employee and holding company expense ratio, were adjusted by the KDIC. Our Korean GAAP

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targets for each six-month period in 2009 and 2010 following such adjustment are set forth in the following table:

	Six-month period ended			
	2009		2010	
	June	December	June	December
Capital adequacy ratio(1)	10.0%	10.0%	10.0%	10.0%
Return on total assets(2)	0.1	0.2	0.4	0.5
Expense-to-revenue ratio(3)	52.3	50.3	54.6	51.1
Operating income per employee (Won millions)(4)	₩ 310	₩ 310	₩ 310	₩ 320
Non-performing loan ratio(5)	1.8%	1.8%	1.8%	1.3%
Holding company expense ratio(6)	0.6	0.5	0.5	0.5

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

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

(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income (i) before subtracting loan loss provisions and general and administrative expenses and (ii) after subtracting (a) gain (loss) on valuation and disposal of equity investment securities and (b) income from Won-denominated loans with respect to the amount of such loans that exceeds the amount of Won-denominated deposits.

(4) Represents the ratio of adjusted operating income to total number of employees.

(5) Represents the ratio of total credits classified as substandard or below to total credits, in each case, net of provisions.

(6) Represents the ratio of the holding company s expenses to adjusted operating income of its subsidiaries.

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

Reorganization and Integration Plan

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

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

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

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

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

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

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

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

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

In addition, as part of our integration efforts under the plan:

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

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

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

Furthermore,

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

- In June 2004, we acquired the 39.7% interest in Woori Securities that we did not own, and delisted it from the KRX KOSPI Market in July 2004.

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

- In May 2005, we acquired a 90.0% interest in LGITM, from Woori Investment & Securities and merged Woori Investment Trust Management into LGITM. We renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary. In July and September 2005, Woori Asset Management reacquired the remaining 10.0% interest from its minority shareholders. In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse. Following this transfer, we renamed the entity Woori Credit Suisse Asset Management. In October 2009, we reacquired Credit Suisse s 30.0% ownership interest in Woori Credit Suisse Asset Management and renamed the entity Woori Asset Management.

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

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

- In April 2008, we acquired a 51.0% interest in LIG Life Insurance. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 97.8% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. We account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP.

In addition, we have implemented a group-wide, standardized risk management system (except with respect to operational risk), including the standardization of the credit risk management systems of our subsidiaries which was completed in 2007. With respect to credit risk management systems, we have completed implementing standardized credit risk management systems based on Woori Bank s system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System in 2006, completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities in 2008, and also implemented an advanced measurement approach for operational risk at Woori Bank in June 2009.

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Item 4B. *Business Overview*

Business

We are Korea s first financial holding company, and our operations include the second-largest commercial bank in Korea, in terms of total assets (including loans). Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, capital markets activities, international banking, asset management and bancassurance. We provide a wide range of products and services to our customers, which mainly comprise individuals and small-and medium-sized enterprises, as well as some of Korea s largest corporations. As of December 31, 2009, we had consolidated total assets of ₩267.0 trillion, consolidated total deposits of ₩177.6 trillion and consolidated total equity of ₩13.1 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government s interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Since our establishment, we have succeeded in restructuring our operations by: securing a solid capital base for our banking subsidiaries; improving the quality of our exposure to and our relationships in the large corporate sector; refocusing our lending activities on individual and small- and medium-sized enterprise customers to take advantage of our network of approximately 1,172 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 20 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 under U.S. GAAP.

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

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

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

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

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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 16 of the 41 largest Korean corporate borrowers. Further enhancing our corporate loan portfolio is our ability to lend to small- and medium-sized enterprise customers, which numbered approximately 820,000 as of December 31, 2009.

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 20 million retail customers, representing about half of the Korean adult population. Of these customers, more than half are active customers, meaning that they have an account with us with a positive balance or have transacted business with us at least once during the last six months.

Extensive distribution and marketing network. We serve our customers primarily through the second-largest banking network in Korea, comprising approximately 1,172 branches and 8,532 ATMs and cash dispensers. Through Woori Bank, we also operate 13 dedicated corporate marketing centers and approximately 96 relationship managers for our large corporate customers and approximately 1,192 relationship managers stationed at 716 branches for our small- and medium-sized enterprise customers. In addition, we have 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, 2009, our consolidated equity totaled ₩13.2 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 12.4%. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

Strong and experienced management team. Our management team comprises both experienced managers from our subsidiaries and their predecessor companies as well as leading experienced financial industry professionals who have been recruited from outside our group to complement our team. In June 2008, Pal Seung Lee, a former chief executive officer of Woori Investment & Securities, assumed the role of our chairman and chief executive officer, which we believe has enhanced the quality of our management team and our corporate governance. We also believe that the extensive experience of many members of our management team in the financial sector will help us to continue to strengthen our operations.

Strategy

Our goal is to become a dynamic, leading full-service provider of financial services and products to corporate and consumer customers in Korea, and we will measure our success based on our ability to increase our profitability and shareholder value. We intend to capitalize on our strong market and financial position 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 taken various measures, including entering 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 6.8% as of December 31, 2001 to 1.7% as of December 31, 2009.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized group-wide risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies across all subsidiaries and implemented an advanced credit evaluation system called CREPIA at Woori Bank. Kyongnam Bank and Kwangju Bank currently use standardized credit evaluation systems based on the

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CREPIA system. In connection with the implementation of Basel II in Korea in January 2008, we completed upgrades to our credit risk management systems in 2007, including credit evaluation models, collateral management systems and non-performing credit management systems, as well as the implementation of a credit risk measurement engine to quantify our credit risk exposures. Furthermore, following the global financial crisis, we undertook a group-wide review of our credit risk management procedures with outside consultants in 2009, as well as undertaking further group-wide reviews of our risk management infrastructure and systems in 2009 and 2010, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems.

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

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

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

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

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

In addition, we intend to continue to enter into business alliances with other leading financial service providers so that we can offer a full range of best of class products and services to our targeted customers. We actively evaluate alliances and joint venture opportunities when they arise in order to diversify our revenue stream and provide our customers with a range of sophisticated and tailored products that will complement our existing products and services.

We also intend to carefully consider potential acquisitions or other strategic investments that fit within our overall strategy. When considering acquisitions, we will focus on opportunities that (1) supplement the range of products and services we offer and strengthen our existing customer base; (2) enable us to maintain our standard for asset quality and profitability; and (3) provide us with a reasonable return on our investment.

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Enhance operational efficiencies and synergies. We have been seeking to improve our operational efficiency and synergies and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost distribution channels. We have standardized the risk management operations of Kyongnam Bank and Kwangju Bank with those of Woori Bank, with various upgrades to standardize the credit risk management and operational risk management systems of Kyongnam Bank and Kwangju Bank being completed in 2007. In 2009, we established a centralized information technology center which enables our subsidiaries to access group-wide information technology resources and networks.

We believe that the continuing integration of our accounting, information technology and other back-office systems 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. We are also continuing our efforts to maximize synergies among our subsidiaries, including through increased cross-selling and marketing of a broad range of financial products and services through our financial products department stores located in Seoul and other major cities in Korea.

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

Corporate Banking

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

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

	As of December 31,					
	2007		2008		2009	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)					
Loans:						
Small- and medium-sized enterprise	₩ 68,077	42.6%	₩ 78,807	41.8%	₩ 82,601	44.0%
Large corporate	18,889	11.8	30,325	16.1	25,461	13.6
Others[1]	10,071	6.3	14,892	7.9	13,310	7.1
Total	₩ 97,037	60.7%	₩ 124,024	65.8%	₩ 121,372	64.7%
Deposits:						
Small- and medium-sized enterprise	₩ 22,174	15.3%	₩ 24,387	14.5%	₩ 26,151	14.7%
Large corporate	45,461	31.3	34,476	20.5	60,295	34.0
Total	₩ 67,635	46.6%	₩ 58,863	35.0%	₩ 86,446	48.7%
Number of borrowers:						
Small- and medium-sized enterprise	171,040		220,509		257,159	
Large corporate	1,037		1,771		1,510	

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

Corporate loans we provide consist principally of the following:

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

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

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

Small- and Medium-Sized Enterprise Banking

We use the term small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations. Under the Small and Medium Industry Basic Act of Korea, the general criteria used to define small- and medium-sized enterprises is the number of full-time employees (less than 300), paid-in capital (not more than ₩8 billion) or sales revenues (not more than ₩30 billion), depending on the industry, but in each case the number of full-time employees must be fewer than 1,000, and the total amount of assets must be less than ₩500 billion. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As of December 31, 2009, 32.1% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 14.4% were extended to borrowers in the retail and wholesale industry and 7.0% 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 managers, as well as through the branches and headquarters of Kyongnam Bank and Kwangju Bank. As of December 31, 2009, Woori Bank had stationed one or more relationship managers at 716 branches, of which 367 were located in the Seoul metropolitan area. The relationship managers 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, 2009, Woori Bank had a total of 1,192 small- and medium-sized enterprise relationship managers stationed at its branches.

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

Industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises increased in 2008 and through most of 2009. The delinquency ratio for small- and medium-sized enterprises is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won on a Korean GAAP basis increased from 0.9% as of December 31, 2007 to 1.4% as of December 31, 2008 but decreased to 0.9% as of December 31, 2009. Our delinquency ratio may increase in 2010 as a result of, among other things, adverse economic conditions in Korea and globally. In addition, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea, the Korean government has in recent years introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Item 3D. Risk Factors Other risks relating to our business Difficult conditions in the global credit and financial markets could adversely affect our liquidity and performance and 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, 2009, working capital loans and facilities loans accounted for 69.6% and 22.6%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2009, we had approximately 257,159 small- and medium-sized enterprise borrowers.

As of December 31, 2009, secured loans and loans guaranteed by a third party accounted for 59.6% and 16.2%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2009, approximately 57.7% of the secured loans were secured by real estate and 17.5% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of ten years.

When evaluating the extension of working capital loans and facilities loans, we review the creditworthiness and capability to generate cash of the small- and medium-sized enterprise customer. Furthermore, we take corporate guarantees and credit guarantee letters from other financial institutions and use deposits that the borrower has with us or securities pledged to us as collateral. We receive fees in relation to credit evaluation, collateral appraisal and other services provided in connection with a loan extension.

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

Pricing. We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. At Woori Bank, lending rates are generally determined using our automated CREPIA system. At Kyongnam Bank and Kwangju Bank, we began to determine lending rates using similar credit evaluation systems from January 2008. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2009, approximately 70.8% of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

Our large corporate customers consist of companies that are not small- and medium-size enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations, and typically include companies that have assets of ₩10 billion or more and are therefore subject to external audit under the External Audit Act of Korea. As a result of our history and development, particularly the history of Woori Bank, we remain the main creditor bank to many of Korea s largest corporate borrowers.

In terms of our outstanding loan balance, as of December 31, 2009, 50.7% of our large corporate loans were extended to borrowers in the manufacturing industry, 7.1% were extended to borrowers in the retail and wholesale industry and 6.7% were extended to borrowers in the hotel and transportation industry.

We service our large corporate customers primarily through Woori Bank s network of dedicated corporate marketing centers and relationship managers. Woori Bank operates 13 dedicated corporate marketing centers, 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, 2009, Woori Bank had a total of 96 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 continue to focus 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 continue to increase the *chaebol*-, region- and industry-based specialization of our relationship managers, including through the operation of a knowledge management database that allows greater sharing of marketing techniques and skills.

Lending Activities. We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2009, working capital loans and facilities loans accounted for 48.4% and 11.5%, respectively, of our total large corporate loans.

Loans to large corporate customers may be secured by real estate or deposits or be unsecured. As of December 31, 2009, secured loans and loans guaranteed by a third party accounted for 19.2% and 4.2%, respectively, of our large corporate loans. Since a relatively low percentage of our large corporate loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing or impaired. See Assets and Liabilities Asset

Quality of Loans Loan Loss Provisioning Policy. As of December 31, 2009, approximately 51.5% of the secured loans were secured by real estate and approximately 7.6% 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 large 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 large 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, 2009, approximately 56.2% of these loans had interest rates that varied with reference to current market interest rates.

Consumer Banking

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

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

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

Lending Activities

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

	As of December 31,					
	2007		2008		2009	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentage)					
General purpose household loans	₩ 30,967	19.3%	₩ 30,211	15.9%	₩ 30,802	16.4%
Mortgage and home equity loans	28,556	17.9	30,101	16.0	31,246	16.6
Total	₩ 59,523	37.2%	₩ 60,312	31.9%	₩ 62,048	33.0%

Our consumer loans consist of:

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

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

For secured loans, including mortgage and home equity loans, we generally lend up to 60% of the collateral value (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 60% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate, we generally use the appraisal value of the collateral as determined using our automated CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. We generally revalue collateral on a periodic basis. As of December 31, 2009, the revaluation period was every year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange.

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2009, approximately ₩19,693 billion, or 63.9% of our general purpose household loans were unsecured, although some of these loans were guaranteed by a third party. Overdraft loans are primarily unsecured and typically have a maturity between one and three years, and the amount of such loans has been steadily declining. As of December 31, 2009, this amount was approximately ₩3 billion.

Pricing. The interest rates on our general purpose household 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. In February 2010, we began using the Cost of Fund Index (or COFIX) benchmark rate, as announced by the Korea Federation of Banks, as the base rate for our general purpose household loans with periodic floating rates in place of the benchmark certificate of deposit rate that we had traditionally used for such purpose.

Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our automated CREPIA system, and we began to determine lending rates at Kyongnam Bank and Kwangju Bank using similar credit evaluation systems from January 2008. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2009, approximately 95.1% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is typically 35 years for Woori Bank, Kyongnam Bank and Kwangju Bank. Most of our mortgage and home equity loans have an interest-only payment period of five years or less. With respect to these loans, we determine the eligibility of borrowers based on the borrower s personal information, transaction history and credit history using Woori Bank s CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund. We receive fee income related to the origination of loans, including fees relating to loan processing and collateral evaluation.

As of December 31, 2009, approximately 92.6% of our mortgage and home equity loans were secured by residential or other property, 2.0% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 2.8% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a portion of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2009, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of ₩887 billion. For the year ended December 31, 2009, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 47.4%, compared to 47.3% for the year ended December 31, 2008.

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, 2009, approximately 96.5% 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 ₩50 million with us. As of December 31, 2009, we had over 123,500 customers who qualified for private banking services, representing 0.6% of our total retail customer base. Of our total retail customer deposits of ₩64,367 billion as of December 31, 2009, high net worth and mass affluent customers accounted for 48.1%.

Through our private bankers, we provide financial and real estate advisory services to our high net worth and mass affluent customers. We also market differentiated investment and banking products and services to these segments, including beneficiary certificates, overseas mutual fund products, specialized bank accounts and credit cards. In addition, we have developed a customer loyalty program for our private banking customers that provides preferential rate and fee benefits and awards. We have also segmented our private banking operations by introducing exclusive private client services for high net worth customers who individually maintain a deposit balance of at least ₩100 million in the case of Woori Bank and ₩50 million in the case of Kyongnam Bank and Kwangju Bank. 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 291 branches that offer private banking services. These branches are staffed by 322 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, 2009, 44 private bankers were dispersed over 44 Kyongnam Bank branches and 47 private bankers were dispersed over 47 Kwangju Bank branches that provided private banking services.

We operate four financial products department stores in Seoul, which function as regular branches and through which we offer and market a variety of financial products and services, including credit cards, foreign currency products, bonds, stocks and insurance policies. As of December 31, 2009, these department stores collectively employed 5 specialists in the areas of tax, real estate and asset management. They are also dedicated to offering comprehensive wealth management consulting services for high net worth customers. In addition, Woori Bank operates an advisory center in Seoul for its private banking clients, which employs 15 specialists advising on matters of law, tax, real estate, risk assessment and investments.

Deposit-Taking Activities

As of December 31, 2009, 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 ₩51,301 billion, ₩57,512 billion and ₩64,367 billion as of December 31, 2007, 2008 and 2009, respectively, which constituted 35.4%, 34.2% and 36.2%, 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 five years, with a required minimum deposit of ₩10 million. Interest rates on certificates of deposit vary with the length of deposit and prevailing market rates. Certificates of deposit may be sold at face value or at a discount with the face amount payable at maturity.

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2009:

Time Deposits	**Demand Deposits**	**Savings Deposits**	**Installment Deposits**	**Certificates of Deposit**
57.99%	22.10 %	12.59 %	0.13 %	7.19 %

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

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

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

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

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

Apartment application comprehensive deposits, which are monthly installment comprehensive savings programs providing the holder with a preferential right to subscribe for new national housing units constructed under the Housing Act or privately constructed housing units. These deposits require monthly installments of ₩20,000 to ₩500,000, terminate when the holder is selected as a subscriber for a housing unit and accrue interest at fixed rates depending on the term. These deposit products target all segments of the population.

The Monetary Policy Committee of the Bank of Korea imposes a reserve requirement on Won currency deposits of commercial banks based generally on the type of deposit instrument. The reserve requirement is currently up to 7%. See Supervision and Regulation Principal Regulations Applicable to Banks Liquidity. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits).

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of

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₩50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a quarterly premium of 0.02% of our average deposits for the relevant quarter and, for the year ended December 31, 2009, our banking subsidiaries paid an aggregate of ₩183 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 1,172 branches in Korea as of December 31, 2009, which on a combined basis was the second-most extensive network of branches among Korean commercial banks. Recently, demand for mutual funds and other asset management products as well as bancassurance products have been rising. These products require extensive sales force and customer interaction to sell, further emphasizing the need for an extensive branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct most of their transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

The following table presents the geographical distribution of our branch network in Korea as of December 31, 2009:

	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	**% of Total**	**Number**	**% of Total**	**Number**	**% of Total**	**Number**	**% of Total**
Area								
Seoul	439	49.4%	3	2.0%	4	3.0%	446	38.0%
Six largest cities (other than Seoul)	152	17.1	47	31.8	88	65.2	287	24.5
Other	298	33.5	98	66.2	43	31.9	439	37.5
Total	889	100.0%	148	100.0%	135	100.0%	1,172	100.0%

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

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2009:

	ATMs	**Cash Dispensers**
Woori Bank	4,906	1,873
Kyongnam Bank	465	534
Kwangju Bank	354	400
Total	5,725	2,807

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

Woori Bank

	For the year ended December 31,		
	2007	2008	2009
ATMs[1]:			
Number of transactions (millions)	398	444	447
Fee income (billions of Won)	₩ 34	₩ 48	₩ 46
Telephone banking:			
Number of users	5,186,812	5,650,470	5,903,273
Number of transactions (millions)	118	123	159
Fee income (billions of Won)	₩ 5	₩ 5	₩ 4
Internet banking:			
Number of users	6,339,416	7,746,439	8,880,331
Number of transactions (millions)	2,068	2,804	3,368
Fee income (billions of Won)	₩ 70	₩ 86	₩ 104

Kyongnam Bank

	For the year ended December 31,		
	2007	2008	2009
ATMs[1]:			
Number of transactions (millions)	68	73	73
Fee income (billions of Won)	₩ 8	₩ 8	₩ 8
Telephone banking:			
Number of users	792,416	847,634	885,757
Number of transactions (millions)	20	23	26
Fee income (billions of Won)	₩ 2	₩ 1	₩ 1
Internet banking:			
Number of users	528,177	589,745	694,506
Number of transactions (millions)	61	88	116
Fee income (billions of Won)	₩ 1	₩ 1	₩ 1

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Kwangju Bank

	For the year ended December 31,		
	2007	2008	2009
ATMs[1]:			
Number of transactions (millions)	75	92	93
Fee income (billions of Won)	₩ 7	₩ 7	₩ 6
Telephone banking:			
Number of users	582,098	619,657	653.798
Number of transactions (millions)	17	17	17
Fee income (billions of Won)	₩ 1	₩ 1	₩ 1
Internet banking:			
Number of users	573,029	617,335	666,540
Number of transactions (millions)	87	115	128
Fee income (billions of Won)	₩ 1	₩ 1	₩ 1

(1) Includes cash dispensers.

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

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

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

We also provide mobile banking services to our customers, which is available to all our Internet-registered users. These services allow our customers to complete selected banking transactions through major Korean telecommunications networks using their cellular phones or other mobile devices. 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. Our electronic bill presentation and payment system provides our customers with the ability to pay taxes, maintenance fees and other public fees electronically.

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

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

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

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, 2009, Woori Bank s market share based on transaction volume was approximately 7.5%, 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 a private equity fund and nine other Korean financial institutions and operates the largest merchant payment network in Korea as measured by transaction volume. This ownership stake allows us to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for our Woori Bank credit card and Kyongnam Bank BC Card operations.

Products and Services

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

- a Woori brand previously offered by Woori Credit Card and currently offered by Woori Bank;
- a BC Card brand offered by Kyongnam Bank;
- a BC Card brand previously offered by Woori Bank; and
- a Visa brand offered by Kwangju Bank.

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

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

- credit purchase services, which allow cardholders to purchase merchandise or services on credit and repay such credit on a lump-sum or installment basis;
- cash advance services from ATMs and bank branches; and
- credit card loans, which are loans that cardholders can obtain based on streamlined application procedures.

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

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

	As of or for the year ended December 31,									
	2007			2008			2009			
	Woori Card(1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card(1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card(1)	Kyongnam Bank BC Card	Kw	
	(in billions of Won, unless indicated otherwise)									
f credit card t year end) s of holders)										
ccounts	7,240	659	540	9,035	845	706	9,888	946		
accounts	147	31	27	188	46	42	198	50		
	7,387	690	567	9,222	891	748	10,086	996		
io(2)	59.79%	51.01%	63.24%	59.93%	49.20%	58.32%	57.09%	48.29%		
d interest										
nt and cash nterest	₩ 246	₩ 17	₩ 5	₩ 292	₩ 18	₩ 5	₩ 322	₩ 18	₩	
embership	12	1		9	1		9	1		
fees	391	25	28	536	35	36	567	39		
s	71	6	2	121	6	2	130	5		
	₩ 720	₩ 49	₩ 35	₩ 958	₩ 60	₩ 43	₩ 1,028	₩ 63	₩	
olumes										
urchase	₩ 14,333	₩ 1,189	₩ 1,001	₩ 20,705	₩ 1,418	₩ 1,229	₩ 22,496	₩ 1,588	₩	
nt purchase	3,052	246	129	4,721	384	265	4,590	416		
ance	5,587	234	191	6,596	247	189	6,509	234		
	352	7		697	18		371	5		
	₩ 23,324	₩ 1,676	₩ 1,321	₩ 32,709	₩ 2,067	₩ 1,683	₩ 33,966	₩ 2,243	₩	
ng balances nd)										
urchase	₩ 1,188	₩ 144	₩ 82	₩ 1,579	₩ 159	₩ 85	₩ 1,633	₩ 141	₩	
nt purchase	779	49	30	908	67	41	931	86		
ance	785	32	20	933	35	20	830	30		
	209	7	0	459	10		295	5		
	₩ 2,961	₩ 232	₩ 132	₩ 3,879	₩ 271	₩ 146	₩ 3,689	₩ 262	₩	

outstanding									
urchase	₩ 1,125	₩ 136	₩ 77	₩ 508	₩ 51	₩ 27	₩ 620	₩ 54	₩
nt purchase	737	47	29	292	22	13	353	32	
ance	743	30	19	300	11	6	315	11	
	198	6	0	148	3		112	2	
	₩ 2,803	₩ 219	₩ 125	₩ 1,248	₩ 87	₩ 47	₩ 1,400	₩ 99	₩
ncy ratios(3)									
1 month	4.64	1.39	2.93	4.93	0.82	2.54	2.97	0.54	
onth to									
	1.21	0.55	0.78	1.69	0.78	1.26	1.27	0.66	
onths to									
	0.92	0.50	0.59	1.14	0.4	1.01	1.18	0.78	
onths	0.07	0.31	0.29	0.09	0.08	0.36	0.10	0.19	
	6.84%	2.75%	4.59%	7.85%	2.08%	5.17%	5.52%	2.17%	
orming loan									
	1.07%	1.40%	1.10%	1.36%	0.66%	1.85%	1.30%	1.18%	
ffs (gross)	₩ 78	₩ 3	₩ 2	₩ 105	₩ 5	₩ 3	₩ 193	₩ 4	₩
s	63	2	1	58	2		57	0	
e-offs	₩ 15	₩ 1	₩ 1	₩ 47	₩ 3	₩ 3	₩ 136	₩ 4	₩
rge-off									
	2.78%	1.65%	1.58%	8.38%	5.51%	6.96%	13.79%	4.15%	
e-off ratio(6)	0.54%	0.59%	0.39%	3.73%	2.90%	6.22%	9.74%	4.02%	

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

(3) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 3.3% of our credit card receivables as of December 31, 2009.

(4) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2007, 2008 and 2009:

	As of December 31,		
	2007	2008	2009
	(in billions of Won)		
Restructured loans	₩ 9	₩ 19	₩ 35

(5) Represents the ratio of gross charge-offs for the year to average outstanding balances for the year. Under U.S. GAAP, our charge-off policy is to charge off balances which are more than six months past due (including previously delinquent credit card balances restructured into loans that are more than six months overdue from the point at which the relevant balances were so restructured), except for those balances with a reasonable probability of recovery.

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

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

- cards that offer additional benefits, such as frequent flyer miles and award program points that can be redeemed for services, products or cash;
- gold cards, platinum cards and other preferential members   cards that have higher credit limits and provide additional services;
- corporate and affinity cards that are issued to employees or members of particular companies or organizations; and
- revolving credit cards and cards that offer travel services and insurance.

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans commencing in 2002. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of ₩1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a down payment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2009, the total amount of our restructured loans was ₩35 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.

Payments and Charges

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

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

Payments on amounts outstanding on our credit cards must be made (at the cardholder s election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly installments over a fixed term from two months to 36 months, in the case of installment purchases. Cardholders may prepay installment purchases at any time without penalty. Payment for cash advances must be made on a lump sum basis. Payments for card loans must be made on an equal principal installment basis over a fixed term from three months up to a maximum of 36 months, up to a maximum loan amount of ₩20 million.

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

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 9.2% to 27.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a minimum commission of ₩600 and a maximum of ₩1,900 or 0.5% of the withdrawal amount per withdrawal.

We also generally charge a basic annual membership fee of ₩1,000 to ₩15,000 for regular cards, ₩5,000 to ₩15,000 for gold cards and ₩10,000 to ₩120,000 for platinum cards. The determination of the annual fee is based on various factors including the type of card, and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori Card (which can only be used in Korea and is not affiliated with Visa or MasterCard), Woori Christian Card and Hyundai Home Shopping Woori Card, we will waive membership fees if customers charge above a certain amount.

Commencing in July 2006, we outsourced the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2009, we charged merchants an average of 2.13% of their respective total transaction amounts, in the case of Woori Bank, and 2.07% and 2.20%, respectively, in the case of Kyongnam Bank and Kwangju Bank. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

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

In September 2004, our board approved a plan to buy a significant voting interest in LG Investment & Securities Co., or LGIS, which had been previously held by LG Card, in order to expand our brokerage and investment banking businesses. The plan provided for our purchase of approximately 26 million shares of LGIS for approximately ₩298 billion, or approximately ₩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 ₩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 ₩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 ₩786 billion, 151 branches within Korea and in other countries and approximately 2,500 employees. The merger was approved by the shareholders of each of Woori Securities and LGIS in extraordinary meetings of shareholders of the respective companies in March 2005. We currently own a 35.0% voting interest in Woori Investment & Securities. As of December 31, 2009, Woori Investment & Securities had consolidated total assets of ₩16,112 billion, consolidated total liabilities of ₩13,501 billion and consolidated total shareholders equity of ₩2,611 billion, on a Korean GAAP basis. For the year ended December 31, 2009, Woori Investment & Securities generated consolidated revenues of ₩4,465 billion and consolidated net income of ₩28 billion, on a Korean GAAP basis.

Securities Investment and Trading

Through Woori Bank and Woori Investment & Securities (which is an equity method investee and whose operations are therefore not included in the figures presented below) and, to a lesser extent, Kyongnam Bank and Kwangju Bank, we invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2009, 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 ₩42,124 billion and represented 15.8% 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, 2009, we held debt securities with a total book value of ₩40,125 billion, of which:

- held-to-maturity debt securities accounted for ₩15,974 billion, or 39.8%;
- available-for-sale debt securities accounted for ₩14,486 billion, or 36.1%; and
- trading debt securities accounted for ₩9,665 billion, or 24.1%.

Of these amounts, as of December 31, 2009, debt securities issued by the Korean government and government agencies amounted to ₩11,502 billion, or 72.0%, of our held-to-maturity debt securities, ₩4,348 billion, or 30.0%, of our available-for-sale debt securities, and ₩3,380 billion, or 35.0%, of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market. As of December 31, 2009:

equity securities in our available-for-sale portfolio had a book value of ₩369 billion, or 2.3%, of our available-for-sale portfolio; and

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equity securities in our trading portfolio had a book value of ₩379 billion, or 3.8%, 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, 2007			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	₩ 10,587	₩ 13	₩ (47)	₩ 10,553
Corporate	6,984	43	(120)	6,907
Financial institutions	5,325	2	(24)	5,303
Asset backed securities	1,616	4	(5)	1,615
Foreign governments	18			18
Subtotal	24,530	62	(196)	24,396
Equity securities	636	1,035	(18)	1,653
Beneficiary certificates[1]	1,139	47		1,186
Total available-for-sale securities	₩ 26,305	₩ 1,144	₩ (214)	₩ 27,235
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	₩ 6,413	₩ 3	₩ (73)	₩ 6,343
Corporate	56	1		57
Financial institutions	1,586		(27)	1,559
Asset backed securities	45			45
Foreign governments	116			116
Total held-to-maturity securities	₩ 8,216	₩ 4	₩ (100)	₩ 8,120

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	As of December 31, 2008			
	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	₩ 8,736	₩ 195	₩	₩ 8,931
Corporate	5,783	129	(73)	5,839
Financial institutions	3,905	81	(17)	3,969
Asset backed securities	2,084	4	(1)	2,087
Foreign governments	70			70
Subtotal	₩ 20,578	₩ 409	₩ (91)	₩ 20,896
Equity securities	598	427	(38)	987
Beneficiary certificates[(1)]	1,504	30	(13)	1,521
Total available-for-sale securities	₩ 22,680	₩ 866	₩ (142)	₩ 23,404
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	₩ 6,977	₩ 145	₩ (2)	₩ 7,120
Corporate	119		(3)	116
Financial institutions	2,335	14	(8)	2,341
Asset backed securities	81			81
Foreign governments	100			100
Total held-to-maturity securities	₩ 9,612	₩ 159	₩ (13)	₩ 9,758

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	As of December 31, 2009							
	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	₩	4,361	₩	13	₩	(26)	₩	4,348
Corporate		6,789		245		(74)		6,960
Financial institutions		2,261		15		(11)		2,265
Asset backed securities		766		80		(8)		838
Foreign governments		74						74
Subtotal		14,251		353		(119)		14,485
Equity securities		130		245		(7)		368
Beneficiary certificates(1)		1,181		50		(25)		1,206
Total available-for-sale securities	₩	15,562	₩	648	₩	(151)	₩	16,059
Held-to-maturity securities:								
Debt securities								
Korean Treasury securities and government agencies	₩	11,502	₩	50	₩	(32)	₩	11,520
Corporate		1,358		14		(3)		1,369
Financial institutions		2,503		15		(2)		2,516
Asset backed securities		491		5				496
Foreign governments		120						120
Total held-to-maturity securities	₩	15,974	₩	84	₩	(37)	₩	16,021

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

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

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers, primarily through Woori Bank and Woori Investment & Securities (which is an equity method investee and whose operations are therefore not included in the figures presented below). Our trading volume was ₩230,758 billion in 2007,

₩210,012 billion in 2008 and ₩221,956 billion in 2009, respectively. Our aggregate net trading revenue (loss) from derivatives and foreign exchange spot contracts for the years ended December 31, 2007, 2008 and 2009 was ₩14 billion, ₩(445) billion and ₩268 billion, respectively.

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

- interest rate swaps, options and futures, relating principally to Won interest rate risks;
- index futures and options, relating to stock market fluctuations;
- cross currency swaps, relating to foreign exchange risks, largely for Won against U.S. dollars;
- foreign exchange forwards, swaps, options and futures, relating to foreign exchange risks;

commodity derivatives, which we began providing through Woori Bank in 2007 to customers that wish to hedge their commodities exposure; and

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

The derivatives trading activities of our regional banking subsidiaries, Kyongnam Bank and Kwangju Bank, consist primarily of trading of foreign exchange forwards and other foreign exchange-related derivatives.

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,					
	2007		2008		2009	
	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	₩ 6	₩ 4	₩ 3	₩ 4	₩ 1	₩ 3
Foreign exchange derivatives	1,832	1,732	8,430	7,895	2,799	2,153
Interest rate derivatives	525	637	2,016	2,049	1,240	1,287
Equity derivatives	55	383	50	401	54	454
Credit derivatives[1]		128		484		192
Commodity derivatives	95	93	346	330	39	42
Other derivatives	4	4	124	123		
Total	₩ 2,517	₩ 2,981	₩ 10,969	₩ 11,286	₩ 4,133	₩ 4,131

(1) In connection with our credit derivatives outstanding, we accept credit exposure with respect to foreign currency-denominated corporate debt instruments held by counterparties by guaranteeing payments under such instruments, subject to our overall credit limits with respect to the applicable issuers.

In April 2003, Woori Bank entered into an agreement with Macquarie Bank, an Australian investment bank, pursuant to which the latter provided 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 terminated upon the expiration of its stated term on December 31, 2009.

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

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

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2009, we were involved in asset securitization transactions with an initial aggregate issue amount of ₩2,269 billion and generated total fee income under Korean GAAP of approximately ₩57 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 2009, Woori Investment & Securities generated investment banking revenue under Korean GAAP of approximately ₩70 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 2009, Woori Bank generated investment banking revenue of approximately ₩5 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services. Through Woori Investment Asia Pte., which was added as a wholly-owned subsidiary of Woori Investment & Securities in September 2007, we also engage in investment banking activities in Southeast Asia.

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, 2009, Woori Investment & Securities had 130 branches. We also provide securities brokerage services through the Internet and through our home trading system software platform via the following systems: mug, mug stox, mug Q-trading, Web-trading, mug i 6844, mug PDA, mug mTrading, Woori Mobile Bank and mug Mascot. In 2009, Woori Investment & Securities generated fee income under Korean GAAP of approximately ₩365 billion through its securities brokerage activities.

International Banking

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

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

	As of December 31, 2007		As of December 31, 2008		As of December 31, 2009	
	(in millions of US$)					
Total foreign currency assets	US$	18,603	US$	21,252	US$	19,080
Foreign currency borrowings						
Call money		991		2,318		1,071
Secured borrowings						
Long-term borrowings		6,226		5,670		7,048
Short-term borrowings		7,678		7,733		5,763
Total foreign currency borrowings	US$	14,895	US$	15,721	US$	13,882

The table below sets forth the overseas subsidiaries and branches of Woori Bank currently in operation as of December 31, 2009.

Business Unit[(1)]	**Location**
Subsidiaries	
Woori America Bank	United States
P.T. Bank Woori Indonesia	Indonesia
Woori Global Markets Asia Limited	China (Hong Kong)
Woori Bank (China) Limited	China
Zao Woori Bank	Russia
Branches, Agencies and Representative Offices	
London Branch	United Kingdom
Tokyo Branch	Japan
Singapore Branch	Singapore
Hong Kong Branch	China (Hong Kong)
Shanghai Branch	China
Bahrain Branch	Bahrain
Dhaka Branch	Bangladesh
Hanoi Branch	Vietnam
Ho Chi Minh City Branch	Vietnam
Gaeseong Industrial Complex Branch	North Korea
New York Agency	United States
Los Angeles Branch	United States
New Delhi Representative Office	India
Kuala Lumpur Representative Office	Malaysia
Dubai Representative Office	United Arab Emirates
Sao Paulo Representative Office	Brazil

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

In addition, Woori America Bank currently operates 18 branches in New York, New Jersey, Maryland, Virginia, Pennsylvania and California and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US$1,076 million as of December 31, 2009 and net loss of US$4 million in 2009.

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

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

In May 2010, we entered into a securities purchase agreement with Hanmi Financial Corporation to acquire 175,000,000 newly issued shares of common stock of Hanmi Financial Corporation at a cash purchase price of US$210 million in the aggregate (or US$1.20 per share). Under the agreement, we also have an option to purchase 25,000,000 additional newly issued shares of such stock at a cash purchase price of US$30 million in the aggregate (or US$1.20 per share). Hanmi Financial Corporation is the holding company of Hanmi Bank, a California state chartered bank with 27 branches throughout California and one loan production office, and is currently facing financial difficulties. Hanmi Financial Corporation had consolidated total assets of US$3,163 million and consolidated total liabilities of US$3,013 million as of December 31, 2009 and consolidated net loss of US$122 million for the year ended December 31, 2009. The completion of this transaction, upon which we expect to acquire a majority interest in Hanmi Financial Corporation, is subject to a number of conditions including receipt of all regulatory approvals and the approval of the shareholders of Hanmi Financial Corporation.

Asset Management

In May 2005, we purchased a 90.0% direct ownership interest in LGITM from LGIS, at a purchase price of ₩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. In October 2009, we reacquired Credit Suisse s 30.0% ownership interest in Woori Credit Suisse Asset Management and renamed the entity Woori 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 that are based upon a percentage, ranging between 0.1% and 2%, of the net asset value of the assets under management.

We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Money trust management is currently the largest source of our fee income. Fees that we received for our trust management services (including those fees related to property trust management services, described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to ₩25 billion in 2007, ₩34 billion in 2008 and ₩28 billion in 2009.

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,		
	2007	2008	2009
	(in billions of Won)		
Principal and interest guaranteed trusts	₩ 17	₩ 1	₩ 1
Principal guaranteed trusts	1,860	1,953	1,907
Performance trusts	11,252	12,920	8,125
Total	₩ 13,129	₩ 14,874	₩ 10,033

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, 2009, under Korean GAAP, our money trusts had invested in securities with an aggregate book value of ₩3,915 billion, which accounted for approximately 39.0% of our money trust assets. Debt securities accounted for ₩3,113 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, 2009, equity securities held by our money trusts amounted to ₩388 billion on a Korean GAAP basis, which accounted for approximately 3.9% of our money trust assets. Of this amount, ₩370 billion was from specified money trusts and the remaining ₩18 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, 2009, under Korean GAAP, our money trusts had made loans in the aggregate principal amount of ₩235 billion (excluding loans to our banking operations of ₩2,564 billion), which accounted for approximately 2.3% of our money trust assets.

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. No material payments of any such shortfall amounts were made in 2009.

Under the Financial Investment Services and Capital Markets Act, which became effective in February 2009, a bank with a trust business license (such as Woori Bank, Kyongnam Bank and Kwangju Bank) is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the effectiveness of the Financial Investment Services and Capital Markets Act.

Property Trusts. Through Woori Bank, Kyongnam Bank and Kwangju 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 2009, our property trust fees ranged from 0.05% to 1.00% of total assets under management, depending on the type of trust account product. As of December 31, 2009, the balance of our property trusts totaled ₩13,148 billion.

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

Investment Trust Management

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

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

fixed income funds, where fixed income securities consist of 60% or more of their assets;

hybrid funds, the assets of which include both fixed income and equity securities with no minimum requirement to hold either type of security;

money market funds, which invest mostly in short-term financial products, such as call loans, commercial paper, certificates of deposit and short-term treasury notes and corporate bonds; and

alternative investment funds, which invest in derivatives, real estate, commodities, special assets, funds of funds and other assets.

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

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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,		
	2007	2008	2009
	(in billions of Won)		
Equity funds	₩ 2,980	₩ 3,684	₩ 2,532
Bond funds	2,021	1,122	1,687
Hybrid funds	1,028	627	608
Money market funds	4,695	4,957	5,735
Alternative investment funds	2,350	2,255	2,702
Total	₩ 13,074	₩ 12,645	₩ 13,264

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

Fees from our investment trust management services amounted to ₩41 billion in 2007, ₩35 billion in 2008 and ₩28 billion in 2009.

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 leverage our existing base of consumer banking customers to cross-sell our investment trust products. We intend to focus on the development of new products tailored to particular customer segments and the enhancement of sales and distribution capabilities through each of our marketing channels to meet our customers needs.

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank, we act as a trustee for approximately 1,322 securities investment trusts, mutual funds and other investment funds. 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 investment fund, based on instructions from the relevant investment fund management company; and
- in certain cases, authenticating beneficiary certificates issued by investment trust management companies and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2009, our fee income from such services was ₩11 billion.

Other Businesses

Merchant Banking

We engage in merchant banking operations through Woori Bank. The merchant banking services we currently offer include principally the following:

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

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

- payment guarantees, which entail issuing guarantees in respect of notes in return for fees; and cash management account (CMA) services, which offer accounts into which the accountholder may freely deposit or withdraw funds and for which returns from an investment portfolio purchased with such deposited funds are distributed as interest.

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

Management of National Housing Fund

In November 2002, we were selected to manage the operations of the National Housing Fund, together with two other financial institutions. In April 2008, we were selected to be the lead manager of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2009, outstanding housing loans from the National Housing Fund amounted to approximately ₩68 trillion, of which we originated approximately ₩25 trillion.

The activities of the National Housing Fund are funded primarily by the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, and by subscription savings deposits held at the National Housing Fund.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. We received total fees of approximately ₩58 billion for managing the National Housing Fund in 2009.

Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we market a wide range of bancassurance products. In 2009, we generated fee income of approximately ₩116 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. Woori Bank has entered into bancassurance marketing arrangements with 23 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Korea Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plans to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base. Woori Bank has also entered into bancassurance marketing arrangements with Woori Aviva Life Insurance, in which we acquired a 51% interest in April 2008.

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity seeks to make long-term and strategic investments in buyout target companies, as well as actively involving itself in their management. This would involve identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those investees so as to enhance their enterprise value. We expect Woori Private Equity s operations to continue to provide us with greater investment opportunities and a new source of business for other related segments, especially corporate banking. In July 2006, Woori Private Equity established Woori Private Equity Fund, the size of which is approximately ₩344 billion, as a limited partnership in which Woori Private Equity serves as a general partner. In December 2009, Woori Private Equity established Woori Blackstone Korea Opportunity Private Equity Fund I, the size of which is approximately ₩606 billion, as a limited partnership in which Woori Private Equity serves as a general partner.

Consumer Finance

We provide consumer finance services through Woori Financial Co., Ltd. We acquired a 51.4% stake in Woori Financial (formerly known as Hanmi Capital Co., Ltd.) in September 2007 and further acquired an additional 2.4% stake in September 2009 following our exercise of certain call options. Woori Financial provides leases and loans for various products, including automobiles, heavy machineries and medical equipments, as well as microlending services. We expect Woori Financial to continue to expand our customer base by providing a variety of non-banking financial services to retail customers as well as synergies through coordinated business operations with our other subsidiaries, including Woori Bank.

Life Insurance

We provide life insurance products and services through Woori Aviva Life Insurance. We acquired a 51.0% stake in Woori Aviva Life Insurance (formerly known as LIG Life Insurance) in April 2008. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 97.8% interest in Woori Aviva Life Insurance, which we account for as an equity method investee under U.S. GAAP. Woori Aviva Life Insurance provides a variety of individual and group life insurance products, including health insurance, whole life insurance, savings-type insurance and pension insurance. Woori Aviva Life Insurance seeks to become a leading life insurance company in Korea by combining our extensive distribution and marketing network and large customer base with the life insurance industry expertise and experience provided by Aviva plc, and we expect that Woori Aviva Life Insurance will allow us to further our strategy of diversifying our non-banking revenue base to cover a full range of financial services and products as a comprehensive financial services provider.

Competition

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

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

In addition, we believe regulatory reforms, including the Financial Investment Services and Capital Markets Act, which became effective in February 2009, 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 past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005 and Chohung Bank s merger with Shinhan Bank in April 2006. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank, while the Lone Star funds have announced that they plan to sell their controlling interest in Korea Exchange Bank. Other financial institutions may seek to acquire or merge with such entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. See Item 3D. Risk Factors Risks relating to competition.

Assets and Liabilities

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

Loan Portfolio

As of December 31, 2009, the balance of our total loan portfolio was ₩187,617 billion, an 0.5% decrease from ₩188,632 billion as of December 31, 2008. As of December 31, 2009, 88.0% of our total loans were Won-denominated loans and 12.0% of our total loans were denominated in other currencies. Of the ₩22,558 billion of foreign currency-denominated loans as of that date, approximately 33.7% represented foreign loans provided by Woori Bank to offshore entities and individuals. Woori Bank makes foreign loans primarily through its overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

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

Loan Types

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

	As of December 31,					
	2005	2006	2007	2008	2009	2009
	(in billions of Won)					(%)
Domestic:						
Corporate:						
Commercial and industrial	₩ 47,232	₩ 58,766	₩ 76,050	₩ 93,931	₩ 96,484	51.4%
Lease financing	75	35	272	425	578	0.3
Trade financing	7,172	8,027	8,754	12,201	10,321	5.5
Other commercial	4,727	5,263	6,496	8,266	6,602	3.5
Total corporate	59,206	72,091	91,572	114,823	113,985	60.7%
Consumer:						
General purpose household[1]	34,906	51,637	56,176	56,911	58,127	31.0%
Mortgage	5,458	4,068	3,248	3,275	3,807	2.0
Total consumer	40,364	55,705	59,424	60,186	61,934	33.0%
Credit cards	2,092	2,405	3,325	4,294	4,098	2.2
Total domestic	101,662	130,201	154,321	179,303	180,017	95.9%
Foreign:						
Corporate:						
Commercial and industrial	₩ 2,316	₩ 3,341	₩ 5,327	₩ 9,015	₩ 7,393	3.9%
Trade financing	76	112	138	185	92	0.1
Total corporate	2,392	3,453	5,465	9,200	7,485	4.0%
Consumer	76	86	99	129	115	0.1
Total foreign	2,468	3,539	5,564	9,329	7,600	4.1%
Total gross loans	104,130	133,740	159,885	188,632	187,617	100.0%
Less: Unearned income	(7)	(5)	(17)	(51)	(98)	
Total loans	₩ 104,123	₩ 133,735	₩ 159,868	₩ 188,581	₩ 187,519	

(1) Includes home equity loans.

Loan Concentrations

Each of our banking subsidiaries limits its total exposure to any single borrower as required by Korean regulations and pursuant to its internal policies. Woori Bank determines this limit based on the borrower s credit rating provided by the bank s CREPIA system, and Kyongnam Bank and Kwangju Bank each determines its respective limit using the borrower s credit rating under its own standardized credit evaluation system based on the CREPIA system. Each of our banking subsidiaries may adjust its respective limit if such limit would otherwise exceed the limit imposed by Korean regulations. See Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to any Individual Customer and Major Shareholder.

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20 Largest Exposures by Borrower

As of December 31, 2009, our exposures to our 20 largest borrowers or issuers totaled ₩36,831 billion and accounted for 14.4% of our total exposures. The following table sets forth our total exposures to those borrowers or issuers as of that date:

	Loans								
ompany (Credit Rating)[1]	Won currency	Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Credit derivatives	Total exposures	Collateral	Amoun classifie as substand or below(
				(in billions of Won)					
ne Bank of Korea[3]	₩	₩	₩	₩ 11,291	₩	₩	₩ 11,291	₩	₩
overnment[3]				7,972			7,972		
TX Offshore & Shipbuilding o., Ltd. (A-)	143	158			1,674		1,975	461	
ung-Dong Ship Marin Co., d. (BBB-)	291				1,138		1,429	879	
LS Shipbuilding Co., Ltd.[3]	14		1		1,371		1,386	1,330	61
amsung Heavy Industries o., Ltd. (AA-)	470		1	20	822		1,313	256	
H Corporation (AAA)	35			1,139			1,174		
yundai Heavy Industries Co., d. (AA+)	35		19		1,066		1,120		
orea Development Bank AA)	37			1,022			1,059	27	
yundai Mipo Dockyard Co., d.(A)	3				1,021		1,024		
ookmin Bank Co., Ltd. AA)	84		71	827			982	77	
PP Plant & Shipbuilding Co., d.[3]	26	23			866		915	173	
amsung Electronics Co., Ltd. AA)	3	778	24		3		808		
yundai Steel (AA)	505	155	3		73		736		
aewoo International orporation(A)		419	4		235		658	11	
aewoo Engineering & onstruction Co., Ltd. (A-)	321		150	114	57		642	39	
G Chem, Ltd. (AA+)	28	526	3		49		606		
orea Housing Finance orporation (AAA)				584			584		
yosung Corporation (A+)	86	316	2		178		582	106	
yundai Samho Heavy dustries Co., Ltd. (AA)	2				572		574		

otal	₩ 2,083	₩ 2,375	₩ 278	₩ 22,969	₩ 9,125	₩	₩ 36,830	₩ 3,359	₩ 61

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2009: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings, as S&P and Moody s credit ratings were unavailable.

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

(3) Credit ratings unavailable.

As of December 31, 2009, 12 of these top 20 borrowers or issuers 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.

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Exposure to Chaebols

As of December 31, 2009, 12.3% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2009, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

	Loans									
Chaebol	**Won currency**	**Foreign currency**	**Equity securities**	**Debt securities**	**Guarantees and acceptances**	**Credit derivatives**	**Total exposures**	**Collateral**	**Amount classified as precautionary or below[1]**	**Amounts classified as substandard or below[1]**
					(in billions of Won)					
Samsung	₩ 944	₩ 1,257	₩ 187	₩ 414	₩ 1,158	₩	₩ 3,960	₩ 25	₩	₩
STX	548	584	1	72	2,008		3,213	298		
Hyundai Motors	1,415	1,053	12	345	362		3,187	843		
Kumho Asiana	906	1,368	154	378	122		2,928	126		694
Hyundai Heavy Industries	223	8	19		2,636		2,886	91		
Hanhwa	1,263	309	1	87	166		1,826	180		
SK	415	843	9	100	193		1,560	46		
LG	222	436	13	84	542		1,297	1,692		
Doosan	448	490	1		192		1,131	291		
Hyosung	282	392	76	113	131		994	167		
Total	₩ 6,666	₩ 6,740	₩ 473	₩ 1,593	₩ 7,510	₩	₩ 22,982	₩ 3,759	₩	₩ 694

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

Loan Concentration by Industry

The following table shows, as of December 31, 2009, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending**:**

	Aggregate corporate loan balance (in billions of Won)	**Percentage of total corporate loan balance**
Industry		
Manufacturing	₩ 42,532	35.0%
Retail and wholesale	14,596	12.0

Construction		12,914	10.6
Hotel, leisure or transportation		8,231	6.8
Financial and insurance		6,347	5.2
Government and government agencies		345	0.3
Other		36,407	30.0
Total	₩	121,372	100.0%

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Loan Concentration by Size of Loans

The following tables show, as of December 31, 2009, the aggregate balances of our loans by outstanding loan amount:

Corporate

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Commercial and industrial loans		
Up to ₩100 million	₩ 7,804	4.2%
Over ₩100 million to ₩1 billion	32,629	17.3
Over ₩1 billion to ₩10 billion	23,093	12.3
Over ₩10 billion to ₩50 billion	19,282	10.3
Over ₩50 billion to ₩100 billion	7,208	3.8
Over ₩100 billion	6,468	3.5
Sub-total	96,484	51.4
Lease financing loans		
Up to ₩100 million	400	0.2
Over ₩100 million to ₩1 billion	57	0.1
Over ₩1 billion to ₩10 billion	23	0.0
Over ₩10 billion to ₩50 billion		
Over ₩50 billion to ₩100 billion		
Over ₩100 billion		
Sub-total	480	0.3
Trade financing loans		
Up to ₩100 million	1,346	0.7
Over ₩100 million to ₩1 billion	3,531	1.9
Over ₩1 billion to ₩10 billion	3,275	1.7
Over ₩10 billion to ₩50 billion	1,984	1.1
Over ₩50 billion to ₩100 billion	182	0.1
Over ₩100 billion	3	0.0
Sub-total	10,321	5.5
Other commercial loans		
Up to ₩100 million	1,002	0.5
Over ₩100 million to ₩1 billion	1,729	0.9
Over ₩1 billion to ₩10 billion	1,834	1.0
Over ₩10 billion to ₩50 billion	1,372	0.7
Over ₩50 billion to ₩100 billion	528	0.3
Over ₩100 billion	137	0.1
Sub-total	6,602	3.5

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	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Foreign commercial and industrial loans		
Up to ₩100 million	516	0.3
Over ₩100 million to ₩1 billion	477	0.3
Over ₩1 billion to ₩10 billion	1,759	0.9
Over ₩10 billion to ₩50 billion	2,927	1.6
Over ₩50 billion to ₩100 billion	1,064	0.6
Over ₩100 billion	650	0.3
Sub-total	7,393	4.0
Foreign trade financing loans		
Up to ₩100 million	1	0.0
Over ₩100 million to ₩1 billion	19	0.0
Over ₩1 billion to ₩10 billion	50	0.0
Over ₩10 billion to ₩50 billion	22	0.0
Over ₩50 billion to ₩100 billion		0.0
Over ₩100 billion		0.0
Sub-total	92	0.0

Consumer

	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
General purpose household loans(1)		
Up to ₩10 million	3,882	2.1
Over ₩10 million to ₩50 million	15,894	8.5
Over ₩50 million to ₩100 million	11,896	6.3
Over ₩100 million to ₩500 million	23,173	12.3
Over ₩500 million to ₩1 billion	2,019	1.1
Over ₩1 billion	1,263	0.7
Sub-total	58,127	31.0
Mortgage loans		
Up to ₩10 million	22	0.0
Over ₩10 million to ₩50 million	990	0.5
Over ₩50 million to ₩100 million	1,269	0.7
Over ₩100 million to ₩500 million	1,473	0.8

Over ₩500 million to ₩1 billion	49	0.0
Over ₩1 billion	4	0.0
Sub-total	3,807	2.0
Credit cards		
Up to ₩10 million	3,252	1.8
Over ₩10 million to ₩50 million	586	0.3
Over ₩50 million to ₩100 million	48	0.0
Over ₩100 million	212	0.1
Sub-total	4,098	2.2

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	Aggregate loan balance (in billions of Won)	Percentage of total loan balance
Foreign consumer loans		
Up to ₩10 million	3	0.0
Over ₩10 million to ₩50 million	9	0.0
Over ₩50 million to ₩100 million	10	0.0
Over ₩100 million to ₩500 million	74	0.0
Over ₩500 million to ₩1 billion	19	0.0
Over ₩1 billion		0.0
Sub-total	115	0.1
Total	₩ 187,519	100%

(1) Includes home equity loans.

Maturity Analysis

The following table sets out, as of December 31, 2009, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed are before deduction of allowance for loan losses:

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in billions of Won)			
Domestic				
Corporate				
Commercial and industrial	₩ 66,346	₩ 22,911	₩ 7,227	₩ 96,484
Lease financing	53	427		480
Trade financing	10,321			10,321
Other commercial	3,676	1,818	1,108	6,602
Total corporate	80,396	25,156	8,335	113,887
Consumer				
General purpose household[1]	25,374	10,691	22,062	58,127
Mortgage	1,220	1,179	1,408	3,807
Credit cards	3,690	407	1	4,098
Total consumer	30,284	12,277	23,471	66,032

Total domestic	110,680	37,433	31,806	179,919

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	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
	(in billions of Won)			
Foreign				
Corporate				
Commercial and industrial	3,436	2,283	1,674	7,393
Lease financing				
Trade financing	92			92
Other commercial				
Total corporate	3,528	2,283	1,674	7,485
Consumer:				
Other consumer	28	85	2	115
Total foreign	3,556	2,368	1,676	7,600
Total loans	₩ 114,236	₩ 39,801	₩ 33,482	₩ 187,519

(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, 2009, the total amount of our loans due after one year, that have fixed interest rates and variable or adjustable interest rates:

	Domestic	Foreign	Total
	(in billions of Won)		
Fixed rate(1)	₩ 9,839	₩ 511	₩ 10,350
Variable or adjustable rates(2)	59,401	3,533	62,934
Total loans	₩ 69,240	₩ 4,044	₩ 73,284

(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.

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

Asset Quality of Loans

Loan Classifications

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

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

Asset Classification	Characteristics
Normal	Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers that: based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or are in arrears for one month or more but less than three months.
Substandard	Either: credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or the portion that we expect to collect of total loans (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.
Doubtful	Credits exceeding the amount we expect to collect of total credits to customers that: based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or have been in arrears for three months or more but less than twelve months.
Estimated Loss	Credits exceeding the amount we expect to collect of total credits to customers that:

based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay;

have been in arrears for twelve months or more; or

have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

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Loan Loss Provisioning Policy

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

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

- loans classified as substandard or below according to the Financial Services Commission s asset classification guidelines;
- loans that are 30 days or more past due;
- loans to companies that have received a warning from the Korean Federation of Banks indicating that companies have exhibited difficulties in making timely payments of principal and interest; and
- loans that are troubled debt restructurings as defined under U.S. GAAP.

Once we have identified a loan as impaired, we generally measure the value of the loan based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. If the measured value is less than the book value of the loan, we establish a specific allowance for the amount deemed uncollectible. Where the entire impaired loan or a portion of the impaired loan is secured by collateral or a guarantee, we consider the fair value of the collateral or the guarantee payment in establishing the level of the allowance. Alternatively, for impaired loans that are considered collateral dependent, we determine the amount of impairment by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that are considered impaired, we determine the fair value by reference to observable market prices, when available.

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

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

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

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

The actual amount of credit losses we incur may differ from our loss estimates as a result of changing economic conditions, changes in industry or geographic concentrations, or other factors. We monitor the differences between our estimated and actual incurred credit losses, and we undertake detailed periodic

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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 ₩207 billion, ₩292 billion and ₩254 billion for 2007, 2008 and 2009, 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 2007, 2008 and 2009 was ₩118 billion and ₩175 billion and ₩136 billion, respectively.

The category accruing but past due one day includes loans that are still accruing interest but on which principal or interest payments are contractually past due one day or more. We continue to accrue interest on loans that are fully secured by deposits or on which there are financial guarantees from the Korean government, the 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,						
2005			2006			2007			2008		
Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domest
					(in billions of Won)						
₩ 11	₩ 1,037	₩ 1,001	₩ 6	₩ 1,007	₩ 1,147	₩ 4	₩ 1,151	₩ 2,011	₩ 1	₩ 2,012	₩ 2,29
1	1,486	1,560		1,560	1,685	1	1,686	2,166		2,166	1,26
12	2,523	2,561	6	2,567	2,832	5	2,837	4,177	1	4,178	3,56
	34	23	0	23	177		177	28		28	9

	47	29	0	29	41		41	47		47	2
	81	52		52	218		218	75		75	12
₩ 12	₩ 2,604	₩ 2,613	₩ 6	₩ 2,619	₩ 3,050	₩ 5	₩ 3,055	₩ 4,252	₩ 1	₩ 4,253	₩ 3,68

(1) Includes credit card balances of ₩95 billion, ₩60 billion, ₩199 billion, ₩290 billion and ₩105 billion as of December 31, 2005, 2006, 2007, 2008 and 2009, respectively.

(2) Includes accruing loans that are contractually past due 90 days or more in the amount of ₩2 billion, ₩4 billion, ₩2 billion and ₩2 billion, as of December 31, 2006, 2007, 2008 and 2009, 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.

As of December 31,	Normal Amount	%	1-3 months Amount past due	%	3-6 months Amount past due	%	More than 6 months Amount past due	%	Total Amount	%
	(in billions of Won, except percentages)									
2005	₩ 102,833	98.8	₩ 335	0.3	₩ 325	0.3	₩ 630	0.6	₩ 104,123	100.0
2006	132,603	99.1	229	0.2	263	0.2	640	0.5	133,735	100.0
2007	157,985	98.8	1,255	0.8	278	0.2	350	0.2	159,868	100.0
2008	185,055	98.1	2,584	1.4	456	0.2	485	0.3	188,581	100.0
2009	185,250	98.8	1,375	0.7	324	0.2	570	0.3	187,519	100.0

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower s credit terms. In July 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and expired on December 31, 2005. The Act applied to more than 420 financial institutions in Korea, which included commercial banks, insurance companies, investment trust companies, securities companies, merchant banks, the KDIC and KAMCO. Under the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower were required to participate in a creditors committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than two-thirds of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes secured debt restructuring) finalized the borrower s restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan was also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagreed with the final restructuring plan approved by the creditors committee had the right to request the creditors committee to purchase its claims at a mutually agreed price. In the event that the creditors committee and the dissenting creditor financial institution failed to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts would be set up to resolve the matter. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio.

As the Corporate Restructuring Promotion Act expired on December 31, 2005 and no other law replacing this Act or with similar effect was enacted, the Korean government presented an amendment bill to extend the effective term of the Corporate Restructuring Promotion Act until December 31, 2010 to the National Assembly of Korea. In July 2007, the National Assembly of Korea, instead of passing such amendment bill, adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective in November 2007. The New Corporate Restructuring Promotion Act contains provisions almost identical to those in the Corporate Restructuring Promotion Act. The main differences between the Corporate Restructuring Promotion Act and the New Corporate Restructuring Promotion Act are: (i) when debts are converted into shares of the borrower in the process of restructuring, the Corporate Restructuring Promotion Act required that a transferee of any such shares agree to be bound by the terms of the restructuring, whereas under the New Corporate Restructuring Promotion Act, such requirement does not apply if a transferor of such shares holds more than 50% plus one share of the total voting shares of the borrower after such transfer; (ii) under the New Corporate Restructuring Promotion Act, creditor financial institutions are no longer required to perform periodic assessments of credit risks of the borrower; and (iii) under the New Corporate Restructuring Promotion Act, creditor financial institutions are no longer required to advise a borrower which is likely to show signs of insolvency (as determined by such borrower s principal creditor financial institution following a credit risk assessment) to take measures to improve its business management, as was the case under the Corporate Restructuring Promotion Act.

The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2010. However, so far as a creditor financial institution gives notice to convene a meeting of the creditors committee

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regarding a restructuring of a borrower prior to December 31, 2010, the New Corporate Restructuring Promotion Act will continue to apply to such restructuring until it is completed or discontinued. The New Corporate Restructuring Promotion Act provides that any restructuring begun under the Corporate Restructuring Promotion Act will be deemed to continue under the New Corporate Restructuring Promotion Act.

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

The Korean Debtor Recovery and Bankruptcy Law was enacted on March 31, 2005 and became effective on April 1, 2006. Accordingly, each of the Company Reorganization Act, the Composition Act, the Bankruptcy Act and the Individual Debtor Recovery Act was abolished. The Korean Debtor Recovery and Bankruptcy Law contains notable changes to previously existing corporate reorganization and composition procedures, including nullification of the composition procedures previously in place and the modification of reorganization procedures into rehabilitation proceedings under the Korean Debtor Recovery and Bankruptcy Law, 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, restructuring or rehabilitation. As of December 31, 2009, ₩1,456 billion, or 0.6%, of our total loans and debt securities were in workout, restructuring or rehabilitation. This included ₩824 billion of loans to and debt securities of large corporate borrowers in workout, restructuring or rehabilitation and ₩631 billion of loans to and debt securities of small- and medium-sized enterprises in workout, restructuring or rehabilitation, which represented 0.4% and 0.3% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout, restructured and rehabilitated loans. At Woori Bank, for example, the Corporate Restructuring Division manages its workout, restructured and rehabilitated loans. Upon approval of a workout, restructuring or rehabilitation 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, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

The following table shows, as of December 31, 2009, our ten largest exposures that were in workout, restructuring or rehabilitation:

Company (Credit Rating)[1]	Loans Won Currency	Loans Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Credit Derivatives	Total Exposures	Collateral[2]	Amounts Classified as Substandard or Below[3]	Allowance
	(in billions of Won)									
Kumho Tire Co., Ltd. (CCC)	₩ 115	₩ 433	₩	₩	₩ 16	₩	₩ 564	₩ 66	₩ 335	₩ 178
KSID Co., Ltd.[4]	173						173			46
Poonglim Industrial Co., Ltd. (CCC)	143				14	3	160	37		55

Amuty Second Co., Ltd. (A1)	70						70			11
Samho International Co., Ltd. (CCC)	49						49		49	44
Wonju Iwant Co., Ltd. (A1)	48						48			8
Junju Iwant Co., Ltd.[4]	44						44			7
City & Culture[4]	40						40	40	40	31
Samho Chunhwang First Co., Ltd.[4]	27						27			8
Keangnam Enterprises Ltd (CCC)[4]	28				8		36			22
Total	₩ 737	₩ 433	₩	₩	₩ 38	₩ 3	₩ 1,211	₩ 143	₩ 424	₩ 410

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(1) Credit rating as of December 31, 2009, from one of the following Korean credit agencies: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.

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

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

(4) Credit rating unavailable.

Troubled Debt Restructurings

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

	As of December 31,													
	2005			2006			2007			2008			2009	
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign
	(in billions of Won)													
n rual lue hich fied led ings	₩ 314		₩ 314	₩ 251		₩ 251	₩ 329		₩ 329	₩ 483		₩ 483	₩ 1,518	

For 2009, interest income that we would have recorded under the original contract terms of restructured loans amounted to ₩50 billion, of which we reflected ₩46 billion as interest income for 2009.

Potential Problem Loans

As of December 31, 2009, we had ₩5,325 billion of corporate loans that were current as to payment of principal and interest but where we had serious doubt as to the borrower s ability to comply with repayment terms in the near future. These amounts were classified as impaired and therefore included in our calculation of specific loan loss allowance under U.S. GAAP. Potential problem loans are precautionary loans that we determine, through our internal loan review process, require close management and increased provisioning due to the borrower s financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business.

Other Problematic Interest-Earning Assets

We have in the past received certain other interest-earning assets in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. However, as of December 31, 2009, we had no such assets.

Non-Performing Loans

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

	As of December 31,				
	2005	2006	2007	2008	2009
	(in billions of Won, except percentages)				
Total non-performing loans	₩ 1,369(1)	₩ 1,354(2)	₩ 1,121(3)	₩ 2,088(4)	₩ 2,489(5)
As a percentage of total loans	1.3%	1.0%	0.7%	1.1%	1.3%

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

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

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

(4) Excludes ₩14 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

(5) Excludes ₩20 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

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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.

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

	As of December 31,									
	2005		2006		2007		2008		2009	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
estic										
orate										
mercial and strial	₩ 802	58.6%	₩ 783	57.9%	₩ 788	70.3%	₩ 1,592	76.2%	₩ 1,819	73
e financing					4	0.4	9	0.4	11	0
e financing	76	5.6	102	7.5	45	4.0	112	5.4	112	4
r commercial	59	4.3	65	4.8	4	0.4	7	0.3	152	6
. corporate	937	68.4	950	70.2	841	75.1	1,720	82.4	2,094	84
umer										
eral purpose ehold[1]	281	20.5	308	22.7	241	21.5	285	13.6	257	10
gage	97	7.1	54	4.0			12	0.6	10	0
. consumer	378	27.6	362	26.7	241	21.5	297	14.2	267	10
it cards	46	3.4	33	2.4	36	3.2	57	2.7	52	2
. domestic	1,361	99.4	1,345	99.3	1,118	99.7	2,074	99.3	2,413	96
ign										
orate										
mercial and strial	8	0.7	8	0.6	3	0.3	14	0.7	76	3
e financing										
e financing			1	0.1						
r commercial										
. corporate	8	0.7	9	0.7	3	0.3	14	0.7	76	3
umer										
. foreign	8	0.7	9	0.7	3	0.3	14	0.7	76	3

performing	₩	1,369	100.0%	₩ 1,354	100.0%	₩ 1,121	100.0%	₩ 2,088	100.0%	₩ 2,489	100

(1) Includes home equity loans.

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Top 20 Non-Performing Loans. As of December 31, 2009, our 20 largest non-performing loans accounted for 59.0% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans:

	Gross principal outstanding	Allowance for loan losses	Collateral[1]	Industry
	(in billions of Won)			
Borrower A	₩ 347	₩ 71	₩ 39	Manufacturing
Borrower B	231	46	15	Construction
Borrower C	108	53		Construction
Borrower D	100	29	41	Manufacturing
Borrower E	92	18		Construction
Borrower F	75	75		Construction
Borrower G	74	42	4	Manufacturing
Borrower H	67	29		Other
Borrower I	56	27		Construction
Borrower J	55	13		Construction
Borrower K	40	8	40	Construction
Borrower L	38	11	1	Manufacturing
Borrower M	35	7	11	Construction
Borrower N	30	6		Construction
Borrower O	24	6		Manufacturing
Borrower P	23	23		Manufacturing
Borrower Q	22	8	4	Manufacturing
Borrower R	18	4	15	Manufacturing
Borrower S	17	8	4	Manufacturing
Borrower T	17	9	10	Manufacturing
Total	₩ 1,469	₩ 493	₩ 184	

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

Non-Performing Loan Strategy

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

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

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

identifying loans subject to a proposed sale by assessing the estimated losses from such sale based on the estimated recovery value of collateral, if any, for such non-performing loans;

identifying loans subject to charge-off based on the estimated recovery value of collateral, if any, for such non-performing loans and the estimated rate of recovery of unsecured loans; and

on a limited basis, identifying corporate loans subject to normalization efforts based on the cash-flow situation of the borrower.

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

commencing collection proceedings;

commencing legal actions to seize collateral;

writing off these amounts, transferring them to specific subsidiaries in charge of collections and authorizing those subsidiaries to recover what they can with respect to these amounts or to sell these loans to third parties; and

with respect to large corporations, commencing or participating in voluntary workouts or restructurings mandated by Korean courts.

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

selling our non-performing loans to special purpose companies established in connection with our joint ventures with several financial institutions; and

selling our non-performing loans to third parties, including KAMCO.

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

Foreclosure and Collateral. We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2007, 2008 and 2009, we foreclosed on collateral we obtained with respect to loan balances representing approximately 0.3%, 0.2% and 0.2% respectively, of our average interest-bearing loan balances in each of those periods. We believe, based on our general understanding of the U.S. banking industry, that we generally foreclose on collateral somewhat less frequently than similarly situated U.S. banks.

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

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

Sales of Non-Performing Loans

The overall asset quality of our loan portfolio is affected by sales of non-performing loans. These sales have been made primarily to KAMCO and to special purpose companies established as a result of joint ventures with several financial institutions.

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

	Year ended December 31,								
	2007			2008			2009		
Purchaser	**Principal Amount Sold**	**Sale Price**	**Gain (loss)**	**Principal Amount Sold**	**Sale Price**	**Gain (loss)**	**Principal Amount Sold**	**Sale Price**	**Gain (loss)**
	(in billions of Won)								
KAMCO	₩ 140	₩ 111	₩ 6	₩ 260	₩ 195	₩ (56)	₩ 44	₩ 34	₩ (3)
Joint venture special purpose companies	349	290	22	189	158		853	641	(4)
Others				73	74	1			
Total	₩ 489	₩ 401	₩ 28	₩ 522	₩ 427	₩ (55)	₩ 897	₩ 675	₩ (7)

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, 2009, we and our predecessor entities sold an aggregate of ₩9,425 billion of substandard or below loans to KAMCO. In addition, in March 2009, the Korea government announced its plans to provide support to financial institutions and companies in the project finance industry by purchasing, through KAMCO, up to ₩4.7 trillion of project finance loans designated by the Financial Supervisory Service as endangered.

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, 2009, the aggregate principal amount of loans subject to these repurchase rights was ₩4 billion, and we recorded no liability relating to those loans.

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

In February 2006, Woori F&I entered into a joint venture arrangement with CRT9 Yugen Kaisha, a subsidiary of Shinsei Bank, to dispose of our substandard or below loans, and a special purpose company was established to purchase such loans from us and to securitize such loans through the issuance of asset-backed securities. In connection with such arrangement, Woori F&I transferred 49% of its 100% interest in Woori CA Asset Management to CRT9 Yugen Kaisha. Woori CA Asset Management was subsequently renamed Woori SB Asset Management and manages the substandard or below loans purchased from us by the special purpose company and receives asset management fees from the special purpose company, as well as a performance fee based on a percentage of asset resolutions. In December 2009, Woori F&I repurchased the 49% interest in Woori SB Asset Management held by CRT9 Yugen Kaisha and renamed it Woori AMC Co., Ltd., and the joint venture arrangement was terminated.

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,									
	2005		2006		2007		2008		2009	
	(in billions of Won, except percentages)									
estic										
orate										
mercial and strial	₩ 915	60.0%	₩ 1,084	58.4%	₩ 1,068	61.5%	₩ 1,936	65.8%	₩ 2,653	74
e financing	1	0.1		0.0	15	0.9	4	0.1	11	0
e financing	85	5.6	128	6.9	88	5.1	187	6.4	279	7
r commercial	67	4.4	119	6.4	69	4.0	217	7.4	166	4
. corporate	1,068	70.1	1,331	71.7	1,240	71.4	2,344	79.7	3,109	87
umer										
eral purpose ehold[1]	340	22.3	372	20.1	331	19.1	320	10.9	182	5
gage	2	0.1	44	2.4	21	1.2	16	0.5	11	0
. consumer	342	22.4	416	22.5	352	20.3	336	11.4	193	5
it cards	64	4.2	51	2.7	59	3.4	97	3.3	78	2
. domestic	1,474	96.7	1,798	96.9	1,651	95.1	2,777	94.4	3,380	95
ign										
orate										
mercial and strial	50	3.2	55	2.9	58	3.3	161	5.5	175	4
e financing										
e financing	1	0.1	1	0.1	1	0.1	3	0.1	2	0
r commercial										

corporate		51	3.3		56	3.0		59	3.4		164	5.6		177	5
umer					1	0.1		26	1.5						
foreign		51	3.3	₩	57	3.1	₩	85	4.9	₩	164	5.6	₩	177	5
allowance oan losses	₩	1,525	100.0%	₩	1,855	100.0%	₩	1,736	100.0%	₩	2,942	100.0%	₩	3,557	100

(1) Includes home equity loans.

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

	Year ended December 31,				
	2005	2006	2007	2008	2009
	(in billions of Won)				
Balance at the beginning of the period	₩ 1,806	₩ 1,525	₩ 1,855	₩ 1,736	₩ 2,942
Provision for credit losses	308	509	219	1,608	2,408
Allowance relating to credit-related commitments transferred to loans	58	15	11	13	47
Allowance relating to loans acquired in connection with acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea		0			
Gross charge-offs					
Domestic					
Corporate					
Commercial and industrial	(173)	(86)	(175)	(186)	(757)
Lease financing		0	(2)	(1)	(9)
Trade financing	(34)	(13)	(28)	(24)	(81)
Other commercial	(54)	(9)	(19)	(16)	(47)
Total corporate	(261)	(108)	(224)	(227)	(894)
Consumer					
General purpose household[(1)]	(119)	(64)	(176)	(113)	(456)
Mortgage	(6)	(10)	(10)	(6)	(30)
Total consumer	(125)	(74)	(186)	(119)	(486)
Credit cards	(183)	(87)	(83)	(113)	(203)
Total domestic	(569)	(269)	(493)	(459)	(1,583)
Foreign	(3)	(2)	(18)	(19)	(60)
Allowance relating to loans sold	(276)	(90)		(40)	(317)
Total gross charge-offs	(848)	(361)	(511)	(518)	(1,960)
Recoveries:					
Domestic					
Corporate					
Commercial and industrial	78	45	34	14	44
Lease financing	1	0	1	0	1
Trade financing	13	7	9	2	5
Other commercial	18	4	6	1	3
Total corporate	110	56	50	17	53
Consumer					
General purpose household	10	34	36	8	27
Mortgage and home equity		5	3	1	2

Total consumer	10	39	39	9	29
Credit cards	98	78	66	61	59
Total domestic	218	173	155	87	141
Foreign	4	1	6	1	3
Total recoveries	222	174	161	88	144
Net charge-offs	(626)	(187)	(350)	(430)	(1,816)
Allowance related to loans transferred to held-for-sale		0			
Allowance relating to disposal of Woori Securities	(15)	0			
Foreign exchange translation effects	(6)	(7)	1	15	(24)
Balance at the end of the period	₩ 1,525	₩ 1,855	₩ 1,736	₩ 2,942	₩ 3,557
Ratio of net charge-offs during the period to average loans outstanding during the period[2]	0.65%	0.16%	0.24%	0.23%	0.97%

(1) Includes home equity loans.
(2) Includes amounts relating to allowance related to loans transferred to held-for-sale.

Loan Charge-Offs

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

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

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

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

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

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

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

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

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

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

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

On September 2, 2008, to support consumer borrowers with low credit scores, the Financial Services Commission established the Credit Rehabilitation Fund to purchase from creditors the loans of such borrowers that are in default and to provide guarantees so that such loans may be refinanced at lower rates. The Credit Rehabilitation Fund provides support to (i) individuals with low credit scores who are in default on loans not exceeding ₩50 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) for a period of three months or more and (ii) individuals with low credit scores ranging from category 6 to 10 who are in default on loans not exceeding ₩30 million in principal amount in the aggregate (which requirement will be waived for individuals who are basic living welfare recipients) and the interest rate of which is 30% or more.

In March 2009, the Financial Services Commission requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following a one-year extension by the Korean government, is expected to continue until April 2011. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with total loans of less than ₩500 million who are in arrears on their payments for more than 30 days but less than 90 days.

Securities Investment Portfolio

Investment Policy

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

maintain asset stability and diversification;

maintain adequate sources of back-up liquidity to match funding requirements; and

supplement income from core lending activities.

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

Our investments in debt securities include primarily bonds issued by government-related entities, as well as corporate bonds that have been guaranteed by banks (other than merchant banks), government-related funds or privately capitalized funds that we consider to have a low credit risk. As of December 31, 2009, we owned ₩401 billion of KDIC debentures, which represent 1.0% 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 Financial Holdings Company Act and the Bank Act. Under these regulations, a bank holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company. In addition, 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 Korean government bonds) to 60% of the sum of its total Tier I and Tier II capital amount (less any capital deductions). Each of our subsidiaries is also generally prohibited from purchasing or retaining permanent ownership interests in equity securities of other banking institutions or acquiring more than 15% of the shares with voting rights issued by any other corporation. Each of our banking subsidiaries and its respective trust accounts are prohibited from acquiring the shares of any of our major shareholders, as defined in Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholder, in excess of an amount determined by enforcement decree within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

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

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

Category	Classification	Valuation Method
Trading securities	Securities held in anticipation of short-term market movements, which have been acquired for the purpose of short-term capital gains.	Marked-to-market and reported at fair value. We record unrealized gains and losses in income. Trading securities held by our overseas branches are stated at market value unless otherwise required by regulatory authorities in countries where the overseas branches are located.
Available-for-sale securities	Securities not classified as held to maturity or trading or other investments. Securities are classified as available-for-sale when we intend to hold them for an indefinite period of time or when the securities may be utilized for tactical	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 available-for-sale securities

asset/liability purposes and sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs.	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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Category	Classification	Valuation Method
		For impaired available-for-sale debt securities that we do not intend to sell and we believe that it is more-likely- than-not that we will not be required to sell before recovery of the amortized cost basis, we consider both qualitative and quantitative valuation factors to evaluate whether we expect to recover the entire amortized cost basis of such securities and the amount of the other- than-temporary impairment is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income.
Other investments	Equity securities where we exercise significant influence over the operating and financial policies of an investee.	Valued pursuant to the equity method of accounting, based on net asset value. We reflect our share in net income or net loss of these entities in our income statement. Changes in retained earnings, capital surplus or other capital accounts of these entities are accounted for as adjustments to our retain earnings or capital adjustments, consistent with the manner reflected in these entities financial statements.
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.
	Equity investment securities that do not have a readily determinable fair value.	Valued at acquisition cost. However, if the fair value of these securities declines below their cost and the decline is deemed other-than-temporary, the difference in value is recorded as a realized loss on our income statement.

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Book Value and Market Value

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

	As of December 31,					
	2007		2008		2009	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)					
Trading securities						
Equity securities	₩ 323	₩ 323	₩ 224	₩ 224	₩ 379	₩ 379
Beneficiary certificates	348	348	124	124	45	45
Debt securities						
Korean treasury securities and government agency securities	2,388	2,388	2,677	2,677	3,380	3,380
Debt securities issued by financial institutions	937	937	798	798	890	890
Corporate debt securities	4,539	4,539	2,887	2,887	4,667	4,667
Asset backed securities	1,121	1,121	2,137	2,137	728	728
Total Trading	9,656	9,656	8,847	8,847	10,089	10,089
Available-for-sale securities						
Equity securities	1,653	1,653	988	988	368	368
Beneficiary certificates	1,186	1,186	1,521	1,521	1,206	1,206
Debt securities						
Korean treasury securities and government agency securities	10,553	10,553	8,931	8,931	4,348	4,348
Debt securities issued by financial institutions	5,303	5,303	3,970	3,970	2,265	2,265
Corporate debt securities	6,907	6,907	5,839	5,839	6,960	6,960
Asset backed securities	1,615	1,615	2,087	2,087	838	838
Debt securities issued by foreign governments	18	18	70	70	74	74
Total Available-for-sale	27,235	27,235	23,406	23,406	16,059	16,059
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	6,413	6,343	6,977	7,120	11,502	11,520
Debt securities issued by financial institutions	1,585	1,559	2,335	2,341	2,503	2,515
Corporate debt securities	56	57	119	116	1,358	1,369
Asset backed securities	46	45	81	81	491	497
Debt securities issued by foreign governments	116	116	100	100	120	120
Total Held-to-maturity	8,216	8,120	9,612	9,758	15,974	16,021

Total securities	₩	45,107	₩	45,011	₩	41,865	₩	42,011	₩	42,122	₩	42,169

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2009:

	As of December 31, 2009								
	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
	(in billions of Won)								
curities									
asury securities and t agencies	₩ 183	4.77%	₩ 2,974	4.65%	₩ 223	5.45%	₩		₩ 3,380
ties issued by stitutions	435	4.66	456	4.98					890
lebt securities	4,479	3.34	188	5.36					4,667
ed securities	728	3.24							728
	₩ 5,825	3.47%	₩ 3,618	4.73%	₩ 223	5.45%	₩		₩ 9,665
for-sale securities									
asury securities and t agency	₩ 875	3.59%	₩ 2,229	4.80%	₩ 472	4.54%	₩ 772		₩ 4,348
ties issued by stitutions	1,135	5.57	552	5.17	429	4.10	150	6.70	2,266
lebt securities	3,671	4.95	1,844	6.45	300	3.23	1,145	4.63	6,960
ed securities	405	4.43	233	13.38	175	12.91	25	81.42	838
ties issued by ernments	18	19.86	56	49.49					74
	₩ 6,104	4.88%	₩ 4,914	6.38%	₩ 1,376	5.19%	₩ 2,092	5.17%	₩ 14,486
aturity securities									
asury securities and t agencies	₩ 6,096	4.03%	₩ 5,397	3.88%	₩		₩ 9	2.65%	₩ 11,502
ties issued by stitutions	1,450	5.64	958	5.51	60	6.79	35	7.33	2,503
lebt securities	307	3.69	1,041	5.44	10	6.83			1,358
ed securities	20	3.94	145	5.62			326	8.86	491
ties issued by ernments	2		118						120
	₩ 7,875	4.31%	₩ 7,659	4.27%	₩ 70	6.79%	₩ 370	8.57%	₩ 15,974

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

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Risk Concentrations

As of December 31, 2009, 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, 2009, our stockholders equity was ₩12,866 billion.

	As of December 31, 2009			
		Book Value		Market Value
	(in billions of Won)			
Name of issuer:				
The Bank of Korea	₩	11,291	₩	11,311
Korean government		7,973		7,971
Total	₩	19,264	₩	19,282

The Bank of Korea is a Korean government entity.

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 70.1% of our total funding as of December 31, 2007, 70.8% of our total funding as of December 31, 2008 and 73.5% of our total funding as of December 31, 2009.

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, 2009, approximately 94.3% of our total funding was denominated in Won.

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,					
	2007		2008		2009	
	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	₩ 4,168		₩ 6,132		₩ 4,579	
Interest-bearing	24,912	0.27%	25,125	0.30%	27,652	0.28%
Time deposits						
Certificates	19,618	5.06	21,808	6.28	15,070	5.14
Other time deposits	76,989	4.55	92,498	5.26	111,828	3.77
Savings deposits	11,306	3.06	15,850	3.73	21,423	1.88
Mutual installment deposits(2)	455	3.59	344	3.88	257	3.32
Average total deposits	₩ 137,899	3.70	₩ 161,757	4.44	₩ 180,809	3.11

(1) Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.

(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, 2009, the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had fixed maturities in excess of ₩100 million:

	As of December 31, 2009			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	₩ 3,064	₩ 18,486	₩ 11	₩ 21,561
After three but within six months	3,181	9,163	6	12,350
After six but within 12 months	5,728	43,305	10	49,043
After 12 months	3,445	3,589	13	7,047
Total	₩ 15,418	₩ 74,543	₩ 40	₩ 90,001

Long-Term Debt

The aggregate amount of contractual maturities of all long-term debt as of December 31, 2009 was as follows:

		Amount (in billions of Won)
Due in 2010		14,682
Due in 2011		6,394
Due in 2012		6,060
Due in 2013		2,379
Due in 2014		4,292
Thereafter		9,602
Gross long-term debt		43,409
Less: discount		(69)
Total long-term debt, net	₩	43,340

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,					
	2007		2008		2009	
	(in billions of Won)					
Call money						
Year-end balance	₩	3,008	₩	2,960	₩	5,687
Average balance(1)		1,965		3,779		4,576
Maximum balance		3,008		4,271		8,244
Average interest rate(2)		4.90%		3.63%		1.90%
Year-end interest rate		0.74%~7.07%		0.35%~3.08%		0.68%~3.64%
Borrowings from the Bank of Korea(3)						
Year-end balance	₩	932	₩	1,183	₩	1,560
Average balance(1)		1,035		943		1,376
Maximum balance		1,149		1,183		1,803
Average interest rate(2)		2.94%		3.01%		1.36%
Year-end interest rate		3.25%		1.75%		1.25%
Other short-term borrowings(4)						
Year-end balance	₩	13,000	₩	17,276	₩	11,275
Average balance(1)		13,124		13,145		14,002
Maximum balance		14,398		22,549		24,693
Average interest rate(2)		4.52%		5.31%		3.21%
Year-end interest rate		0.00%~10.50%		1.27%~10.50%		1.27%~10.50%

(1) Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.

(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 18 of the notes to our consolidated financial statements for a summary of our secured borrowings and relevant collateral as of December 31, 2007, 2008 and 2009.

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 July 31, 2009, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Services Commission and the Financial Supervisory Service.

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

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

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

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

- controlling the management of its subsidiaries;

financially supporting its direct and indirect subsidiaries;

raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;

supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products;

supporting the operations of its direct and indirect subsidiaries by providing access to data processing, legal and accounting resources; and

any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

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

Capital Adequacy

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

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

Liquidity

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

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

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

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

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

- make monthly reports regarding their Won liquidity and quarterly reports regarding their foreign currency liquidity to the Financial Supervisory Service.

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 Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual

Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a financial holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, saving banks or specialized credit financial business 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 net aggregate equity capital (as defined below).

Net aggregate equity capital is defined as the sum of:

(1) in case of a financial holding company, the capital amount as defined in Article 24-3(7), Item 2 of the Enforcement Decree of the Financial Holding Company Act;

(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 342(1) of the Financial Investment Services and Capital Markets Act;

(4) in case of a financial investment company, the capital amount as defined in Article 37(3) of the Enforcement Decree of the Financial Holding Company Act;

(5) in case of an insurance company, the capital amount as defined in Article 2, Item 14 of the Insurance Business Act;

(6) in case of a savings bank, the capital amount as defined in Article 2, Item 4 of the Mutual Savings Bank Act; and

(7) in case of a specialized credit financial business company, the capital amount as defined in Article 2, Item 19 of the Specialized Credit Financial Business Act;

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, financial investment company, insurance company, savings bank or specialized credit financial business 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 financial investment companies, insurance companies, savings banks or specialized credit financial business companies.

The Financial Holding Company Total Credit to a single individual or judicial person may not exceed 20% of the net aggregate 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 net aggregate equity capital and (y) the amount of the equity capital of the financial holding company multiplied by the shareholding ratio of such shareholder (together with the persons who have a special relationship with such shareholder).

Further, the total sum of credits (as defined in the Financial Holding Company Act, the Bank Act, the Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual Savings Bank Act and the

Specialized Credit Financial Business Act, respectively) of a bank holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, savings banks or specialized credit financial business 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 net aggregate 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 net aggregate 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 equal to or exceeding the lesser of (x) the amount equivalent to 0.1% of the net aggregate equity capital and (y) ₩5 billion, in any single transaction, must obtain prior unanimous board resolutions and then, immediately after providing the credit, must file a report to the Financial Services Commission and publicly disclose the filing of the report.

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

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

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

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

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

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

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

Disclosure of Management Performance

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

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

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

(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, or any other event as prescribed in the applicable regulations.

Restrictions on Shareholdings in Other Companies

Generally, a financial holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company.

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:

- financial institutions established in foreign jurisdictions;

- 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 and financial investment companies with a dealing, brokerage, collective investment, investment advice, discretionary investment management and/or trust license);

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

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

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

Subject to certain exceptions, an indirect subsidiary of a financial holding company may not control any other company. If an indirect subsidiary of a financial holding company had control over another company at the time it became such an indirect subsidiary, the indirect subsidiary is required to dispose of its interest in the company within two years from such time.

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

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

Restriction on Ownership of a Financial Holding Company

Under the Financial Holding Company Act, a financial institution generally may not control a financial holding company. In addition, any single shareholder and persons who have a special relationship with that shareholder may acquire beneficial ownership of no more than 10% of the total issued and outstanding shares with voting rights of a bank holding company that controls nationwide banks or 15% of the total issued and outstanding shares with voting rights of a bank holding company that controls only regional banks. The Korean government and the KDIC are not subject to this limit. Non-financial business group companies (as defined below), however, may not acquire the beneficial ownership of shares of a bank holding company controlling nationwide banks in excess of 9% of that bank holding company s outstanding voting shares unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10%. Any other person (whether a Korean national or a foreign investor) may acquire no more than 10% of total voting shares issued and outstanding of a bank holding company controlling nationwide banks unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of a bank holding company controlling only regional banks), 25% or 33% of the total voting shares issued and outstanding of that bank holding company controlling nationwide banks.

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

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

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

(3) any mutual fund where a same shareholder group identified in (1) or (2) above owns more than 9% 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 financial investment company with a dealing and/or brokerage license of a financial holding company may provide that financial holding company and its other direct and indirect subsidiaries information relating to the aggregate amount of cash or securities that a customer of the financial investment company with a dealing and/or brokerage license has deposited for business purposes.

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Principal Regulations Applicable to Banks

Capital Adequacy and Allowances

The Bank Act requires nationwide banks, such as Woori Bank, to maintain a minimum paid-in capital of ₩100 billion and regional banks, such as Kyongnam Bank and Kwangju Bank, to maintain a minimum paid-in capital of ₩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, among others, shareholders equity, capital surplus, retained earnings and hybrid Tier I capital instruments. Tier II capital (supplementary capital) consists of, among others, revaluation reserves, gains on valuation of investment securities (up to certain limits), allowance for loan losses set aside for loans classified as normal or precautionary (up to certain limits), perpetual subordinated debt, cumulative preferred shares (with redemption rights after the fifth anniversary of their date of issuance) and certain other subordinated debt.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These standards were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. All domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8%.

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

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

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

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

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

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

20% of substandard credits;

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

100% of estimated loss credits.

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

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

Liquidity

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

maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% and to make monthly 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 negative 3%;

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:

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

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

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

For foreign currency deposit liabilities, a 2% minimum reserve ratio is applied to time deposits with a maturity of one month or longer, certificates of deposit with a maturity of 30 days or longer and savings deposits with a maturity of six months or longer and a 7% minimum reserve ratio is applied to demand deposits and other deposits. A 1% minimum reserve ratio applies to offshore accounts, immigrant accounts and resident accounts opened by foreign exchange banks.

Furthermore, pursuant to the Regulation on Supervision of Banking Business issued by the Financial Services Commission as amended by Notice No. 2009-65 dated December 31, 2009, beginning on July 1, 2010, foreign exchange agencies, including our subsidiary banks, will be required to hold foreign currency

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safe assets in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less multiplied by 2/12 and (y) an amount equal to one minus the lowest rollover ratio and (ii) 2% of its total foreign currency-denominated assets as shown in the balance sheet for the immediately preceding quarter. The lowest rollover ratio of a foreign exchange agency means the ratio of (A) its total debt with a maturity of one year or less (excluding overnight money) incurred in a particular month to (B) its total debt with maturity of one year or less (excluding overnight money) payable in that particular month, and is calculated by taking the lowest three month average from a period to be designated by the governor of the Financial Supervisory Service. Under the new regulation, foreign currency debt includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as designated by the governor of the Financial Supervisory Service. Foreign currency safe assets are defined as cash denominated in foreign currency, deposits denominated in foreign currency with a central bank or financial institutions rated A or above, bonds issued or guaranteed by a government or central bank rated A or above or corporate bonds issued or guaranteed by corporations rated A or above. Accordingly, we may be required to acquire further foreign currency safe assets. Effective from January 1, 2010, the new regulation also increased the minimum mid- to long-term foreign exchange funding ratio applicable to foreign exchange agencies, including us, from 80% to 90%. Mid-to long term foreign exchange funding ratio refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Financial Exposure to Any Individual Customer and Major Shareholder

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

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

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

- a shareholder holding (together with persons who have a special relationship with that shareholder) in excess of 4% in the aggregate of the bank s (excluding regional banks) total issued voting shares (excluding shares subject to the shareholding restrictions on non-financial business group companies as described below), where the shareholder is the largest shareholder or has actual control over the major business affairs of the bank through, for example, appointment and dismissal of the officers pursuant to the Enforcement Decree of the Bank Act. Non-financial business group companies primarily consist of: (i) any single shareholding group whose non-financial company assets comprise no less than 25% of its aggregate net assets; (ii) any single shareholding group whose non-financial company assets comprise no less than ₩2 trillion in aggregate; or (iii) any mutual fund of which any single shareholding group identified in (i) or (ii) above, owns more than 9% of the total issued and outstanding shares.

Under these restrictions, banks may not extend credits to a major shareholder (together with persons who have a special relationship with that shareholder) in an amount greater than the lesser of (x) 25% of the sum of the bank s

Tier I and Tier II capital (less any capital deductions) and (y) the relevant major shareholder s shareholding ratio multiplied by the sum of the bank s Tier I and Tier II capital (less any capital deductions).

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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).

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans made by registered banks in Korea may not exceed 49% per annum. 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 quarterly 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

For the purpose of protecting depositors and investors in commercial banks, the Financial Services Commission requires commercial banks to publicly disclose certain material matters, including:

- financial condition and profit and loss of the bank and its direct and indirect subsidiaries;

- fund raising by the bank and the appropriation of such funds;

- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act, occurrence of any of the following events listed below or any other event as prescribed by the applicable regulations:

(i) 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 ₩4 billion;

(ii) 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 ₩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

(iii) 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 ₩1 billion.

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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 ₩20 million in the case of a general loan, ₩50 million in the case of a general loan plus a housing loan or ₩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 ₩20 million or general and housing loans of up to ₩50 million in the aggregate.

Recent Regulations Relating to Retail Household Loans

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

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

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

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

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

as to loans secured by collateral of housing located outside of Seoul, Incheon and Gyeong-gi province, which housing was offered for sale on or before June 10, 2008 and with respect to which a sale contract is executed and earnest money deposit paid during the period between June 11, 2008 and June 30, 2009, the loan-to-value ratio should not exceed 70%;

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

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

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

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

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

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

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

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

Restrictions on Investments in Property

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

Restrictions on Shareholdings in Other Companies

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

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

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

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

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

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

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

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 9% of that bank s outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares, and in excess of 10%, 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.02% 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 W50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits.

Restrictions on Foreign Exchange Position

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

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Law. A bank must obtain the permission of the Financial Services Commission to enter the securities business, which is governed by regulations under the Financial Investment Services and Capital Markets 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.

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Trust Business

A bank must obtain approval from the Financial Services Commission to engage in trust businesses. The Trust Act and the Financial Investment Services and Capital Markets 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.

Under the Financial Investment Services and Capital Markets Act, which became effective in February 2009, a bank with a trust business license is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the effectiveness of the Financial Investment Services and Capital Markets Act.

Credit Card Business

General

In order to enter the credit card business, a bank must register with the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on March 12, 2010, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. A registered bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

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

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 cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than 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.

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 those holders of the credit cards in accordance with the terms and conditions of the agreements. Even in such case, the risk of liability cannot be transferred to the holders of the credit cards if there was no willful misconduct or negligence attributable to the holders of the credit cards, such as in the case where the cardholder s password was disclosed under irresistible force or threat to the cardholder s or his/her relative s life or health.

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

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

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

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either restrict the limit or take other necessary measures against the registered bank engaging in the credit card business with respect to such matters as the maximum limits on the amount per credit card, details of credit card terms and conditions, management of credit card merchants and collection of claims, including the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage;
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards; and
- other matters prescribed by the Specialized Credit Financial Business Act and the Enforcement Decree thereto.

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 credit cards with annual fees that are less than the average of the annual fees charged by the major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection with issuing a credit card;

soliciting applicants on roads, public places or along corridors used by the general public;

soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;

soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and

soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

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

exert violence or threaten violence;

inform a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s obligations without just cause;

provide false information relating to the debtor s obligation to the debtor or his or her related parties;

threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004, last amended on March 31, 2010. 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 ₩2 trillion and came into effect on January 1, 2007 with respect to companies with a total asset value of less than ₩2 trillion, and applies retroactively to all applicable claims arising out of acts committed since its enactment.

Principal Regulations Applicable to Financial Investment Companies with a Dealing and/or Brokerage License

General

Beginning in February 2009, the Financial Investment Services and Capital Markets Act regulates and governs the financial investment business, including the brokerage business. The entities that regulate and supervise financial investment companies with a dealing and/or brokerage license are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a company must obtain a license from the Financial Services Commission to commence a financial investment business such as a brokerage business, a dealing business or an underwriting business. A financial investment company with a dealing and/or brokerage license may also engage in certain businesses ancillary to that business without obtaining any separate license and certain other businesses if it obtains separate licenses from the Financial Services Commission. A financial investment company must also obtain approval from the Financial Services Commission to merge with any other entity or transfer all or a part of its business.

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

- increase or reduce its capital;
- cancel or consolidate its stock:
- transfer all or part of its business;
- close branch offices;
- merge with another financial institution;
- suspend a part or all of its business operations; or
- assign contractual rights and obligations relating to its financial transactions.

Regulations on Financial Soundness

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

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

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

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

Total risk = market risk + credit risk + operational risk

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

Other Provisions on Financial Soundness

The Financial Investment Services and Capital Markets Act, the Enforcement Decree of the Financial Investment Services and Capital Markets Act and Financial Services Commission regulations also include provisions designed to regulate certain types of activities relating to the management of the assets of a financial investment company. These provisions include:

- restrictions on the holdings by a financial investment company with a dealing and/or brokerage license of securities issued by another company which is the largest shareholder or the major shareholder (each as defined under the Financial Investment Services and Capital Markets Act) of that financial investment company;

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

- special provisions concerning payment guarantees by a financial investment company with a dealing and/or brokerage license. For instance, a financial investment company with a dealing and/or brokerage license may not provide payment guarantees for major shareholders (as defined in the Financial Investment Services and Capital Markets Act) other than its overseas subsidiaries or provide new guarantees for corporate bonds, other than, subject to certain restrictions, roll-over guarantees in connection with the repayment of bonds previously guaranteed by it.

Business Conduct Rules

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

Disclosure and Reports

Pursuant to the Financial Investment Services and Capital Markets Act, a financial investment company with a dealing and/or brokerage license is required to disclose certain material matters, including:

- its financial condition, including profit and loss;

- any sanctions levied on it under the Financial Investment Services and Capital Markets 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 financial investment company must submit a report on its financial results to the Financial Services Commission within 45 days from the end of each quarter.

Financial Investment Services and Capital Markets Act

General

In July 2007, the National Assembly of Korea passed the Financial Investment Services and Capital Markets Act, a new law intended to enhance the integration of the Korean capital markets and financial investment products industry. The Financial Investment Services and Capital Markets Act became effective as of February 4, 2009.

Consolidation of Capital Markets-Related Laws

Prior to the effectiveness of the Financial Investment Services and Capital Markets Act, different laws regulated different types of financial institutions. By applying a uniform set of rules to the same financial business having the same economic function, the Financial Investment Services and Capital Markets Act aims to address the issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses was governed by multiple regulations. The Financial Investment Services and Capital Markets Act categorizes financial investment businesses into six different functions:

- dealing, trading and underwriting of financial investment products (as defined below);
- brokerage of financial investment products;
- establishment of collective investment schemes and the management thereof;
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, the Financial Investment Businesses).

Accordingly, all financial businesses relating to financial investment products have been reclassified as one or more of the financial investment businesses listed above, and financial institutions are subject to the regulations applicable to their relevant financial investment businesses, regardless of the type of the financial institution it may be. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by former securities companies and future companies will be subject to the same regulations.

Banking and insurance businesses are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws. However, they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license pursuant to the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term financial investment products, defined to mean all financial products carrying a risk of loss of the invested amount. Financial investment products are classified into two major categories: (i) securities (financial investment products in which the risk of loss is limited to the invested amount) and (ii) derivatives (financial investment products in which the risk of loss may exceed the invested amount). As a result of the general and broad definition of financial investment products, a variety of financial products may be defined as a financial investment product, which would enable Financial Investment Companies (defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, entities formerly licensed as securities companies, asset management companies, future companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

New License System and the Conversion of Existing Licenses

Under the Financial Investment Services and Capital Markets Act, Financial Investment Companies are able to choose the type of Financial Investment Business in which to engage (through a check the box method set forth in the relevant license application), by specifying the desired (i) financial investment business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold or distributed (that is, general investors or professional investors). Licenses will be issued under the specific business sub-categories described in the foregoing sentence. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the financial investment business of (i) dealing (ii) over the counter derivatives products or (iii) only with sophisticated investors.

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Financial institution that engage in business activities constituting a financial investment business are required to take certain steps, such as renewal of their license or registration, in order to continue engaging in such business activities. Financial institutions that are not licensed Financial Investment Companies are not permitted to engage in any Financial Investment Business, subject to the following exceptions: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Businesses for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act; and (ii) other financial institutions that engaged in any Financial Investment Business prior to the effective date of the Financial Investment Services and Capital Markets Act (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, previously a financial institution licensed as a securities company generally was not permitted to engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current businesses involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to satisfying relevant regulations (for example, maintaining an adequate Chinese Wall, to the extent required). As to incidental businesses (that is, a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous positive-list system towards a more comprehensive system. In addition, a Financial Investment Company is permitted to (i) outsource marketing activities by contracting introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) engage in foreign exchange business related to their Financial Investment Business and (iii) participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act distinguishes general investors from sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for a strict know-your-customer rule for general investors and imposes an obligation that Financial Investment Companies should market financial investment products suitable to each general investor, using written explanatory materials. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company could be liable if a general investor proves (i) damage or losses relating to such general investor s investment in financial investment products solicited by such Financial Investment Company and (ii) absence of the requisite written explanatory materials, without having to prove fault or causation. With respect to any conflicts of interest between Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Changes to Securities/Fund Regulations

The Financial Investment Services and Capital Markets Act changed various securities regulations including those relating to public disclosure, insider trading and proxy contests, which were previously governed by the Securities and

Exchange Act. For example, the 5% and 10% reporting obligations under the Securities and Exchange Act have become more stringent. The Indirect Investment and Asset Management

Business Act strictly limited the kind of vehicles that could be utilized under a collective investment scheme, restricting the range of vehicles to trusts and corporations, and the type of funds that can be used for investments. However, under the Financial Investment Services and Capital Markets Act, these restrictions have been significantly liberalized, permitting all vehicles that may be created under Korean law, such as limited liability companies or partnerships, to be used for the purpose of collective investments and investment funds to be more flexible as to their investments.

Item 4C. *Organizational Structure*

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

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

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

Our largest subsidiary is Woori Bank, the assets of which represented approximately 79.3% of our total assets as of December 31, 2009. 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, 2009 (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, 2009		
	Total Assets[(1)]		
	Amount	% of Total	Net Income[(2)]
	(in billions of Won, except percentages)		
Subsidiary			
Woori Bank	₩ 211,957	79.3%	₩ 879
Kyongnam Bank	18,890	7.1	110
Kwangju Bank	14,929	5.6	67
Others	21,248	8.0	56
Total	₩ 267,024	100.0%	₩ 1,112

(1) After allocating eliminations of ₩17,421 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 38 of the notes to our consolidated financial statements.

(2) After allocating a loss of ₩189 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 38 of the notes to our consolidated financial statements.

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

Woori Bank

Established in December 1998, Woori Bank (formerly known as Hanvit Bank) was formed as a result of the merger of two nationwide commercial banks, the Commercial Bank of Korea (established in 1899) and Hanil Bank (established in 1932). Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea. As of December 31, 2009, Woori Bank was the second-largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2009, Woori Bank had more than 16 million customers, with 889 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, 2009, Kyongnam Bank had approximately two million customers, with 148 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, 2009, Kwangju Bank had approximately two million customers, with 135 branches throughout southwestern Korea and 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, 2009:

Subsidiary	**Percentage of Ownership**[(1)]	**Total Assets**	**Stockholders Equity**	**Operating Revenue**	**Net Income**
		(in millions of Won)			
Woori Asset Management Co., Ltd.[(2)]	100.0%	89,595	67,456	39,924	8,462
Woori Private Equity Co., Ltd.	100.0%	2,003,443	413,894	367,277	1,310
Woori F&I Co., Ltd.	100.0%	549,315	181,287	72,633	23,996
Woori Finance Information System Co., Ltd.	100.0%	221,876	11,370	281,219	1,416
Woori Financial Co., Ltd.[(3)]	52.5%	2,151,217	211,405	254,065	25,732

(1) Including both direct and indirect ownership.

(2) In May 2006, we transferred 30.0% of our interest in Woori Asset Management to Credit Suisse. Following this transfer, we renamed the entity Woori Credit Suisse Asset Management. In October 2009, we reacquired Credit Suisse s 30.0% interest in Woori Credit Suisse Asset Management and renamed the entity Woori Asset Management.

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

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

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

Type of Facility/Building	Location	Area (square meters)
Woori Finance Holdings and Woori Bank registered office and corporate headquarters	203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea 100-792	97,222
Kyongnam Bank registered office and corporate headquarters	246-1 Seockcheon-dong, Masan City, Kyongnam Province, Korea 630-010	29,457
Kwangju Bank registered office and corporate headquarters	7-12 Daein-dong, Dong-gu, Kwangju, Korea 501-030	47,007
Woori Finance Information System registered office and corporate headquarters	1585 Sangam-dong, Mapo-gu, Seoul, Korea 121-835	40,737

As of December 31, 2009, we had a network of 1,172 banking branches in Korea. With respect to Woori Bank, approximately 258 of its branches are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Singapore, Russia and Indonesia and branches, agencies and representative offices in Asia, the United States and Europe. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us as of December 31, 2009 was ₩2,611 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

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

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP, except for (1) the segment analyses, which are prepared based on Korean GAAP and (2) the selected financial information under Korean GAAP, which is based on our consolidated financial statements prepared in accordance with Korean GAAP. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means.

Investments in affiliated companies (companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in other investment assets.

Acquisitions

In October 2004, we purchased seven million shares of LGIS in the Korean stock market for approximately ₩55 billion. In addition, in December 2004, we purchased approximately 26 million shares of LGIS from LG Card for approximately ₩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 ₩56 billion as the purchase price. The acquisition was accounted for under the purchase method of accounting. In connection with this acquisition, we recognized ₩63 billion of extraordinary gain, which represented the excess of the fair value of the net assets acquired over the purchase consideration after allocations. In January 2005, we reduced the capital of Woori Securities by 42.5% or ₩154 billion in anticipation of its planned merger with LGIS. In March 2005, we merged Woori Securities into LGIS, and renamed the surviving entity Woori Investment & Securities, which became an equity method investee. We currently own a 35.0% voting interest in Woori Investment & Securities. As of December 31, 2009, Woori Investment & Securities had consolidated total assets of ₩16,103 billion, consolidated total liabilities of ₩13,492 billion and consolidated total shareholders equity of ₩2,611 billion, on a Korean GAAP basis. For the year ended December 31, 2009, Woori Investment & Securities generated consolidated revenues of ₩5,358 billion and consolidated net income of ₩112 billion, on a Korean GAAP basis.

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

In April 2008, we acquired a 51.0% interest in LIG Life Insurance from LIG Insurance, Co., Ltd. and other selling shareholders for approximately ₩76 billion. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited and we collectively hold a 97.8% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. We account for Woori Aviva Life Insurance as an equity method investee under U.S. GAAP.

In May 2010, we entered into a securities purchase agreement with Hanmi Financial Corporation to acquire 175,000,000 newly issued shares of common stock of Hanmi Financial Corporation at a cash purchase price of US$210 million in the aggregate (or US$1.20 per share). Under the agreement, we also have an option to purchase 25,000,000 additional newly issued shares of such stock at a cash purchase price of US$30 million in the aggregate (or US$1.20 per share). Hanmi Financial Corporation is the holding company of Hanmi Bank, a California state chartered bank with 27 branches throughout California and one loan production office, and is currently facing financial difficulties. Hanmi Financial Corporation had consolidated total assets of US$3,163 million and consolidated total liabilities of US$3,013 million as of December 31, 2009 and consolidated net loss of US$122 million for the year ended December 31, 2009. The completion of this transaction, upon which we expect to acquire a majority interest in Hanmi Financial Corporation, is subject to a number of conditions including receipt of all regulatory approvals and the approval of the shareholders of Hanmi Financial Corporation.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and adverse economic conditions in Korea and globally from the second half of 2008 and into 2009, have generally led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. In 2009, on a Korean GAAP basis, we recorded charge-offs of

₩862 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of ₩253 billion in 2008. In light of the difficult financial condition and liquidity position of small- and medium-sized enterprises in Korea since the second half of

2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

In recent years, commercial banks, credit card companies, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid growth in consumer credit, together with adverse economic conditions from the second half of 2008 and into 2009, have generally led to increasing delinquencies, loan loss provisions, non-performing loans and charge-offs. In 2009, we recorded charge-offs of ₩486 billion and provisions of ₩310 billion in respect of our consumer loan portfolio, compared to charge-offs of ₩119 billion and provisions of ₩34 billion in 2008. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

The Korean economy is closely tied to, and is affected by developments in, the global economy. During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn have affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions, including the bankruptcy filing of Lehman Brothers, the acquisition of Merrill Lynch & Co., Inc. by the Bank of America Corp., the acquisition of Wachovia Corporation by Wells Fargo & Co., U.S. federal government conservatorship of the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association and Washington Mutual, Inc. and the U.S. federal government s loans to AIG in exchange for an equity interest. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, have implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. Such policy measures implemented by the Korean government and the Bank of Korea included a guarantee program to guarantee foreign currency-denominated debt incurred by Korean banks and their overseas branches, currency swap arrangements with U.S. and Chinese monetary authorities, one-time interest payments to Korean banks with respect to their required reserve deposits with the Bank of Korea (which typically does not pay interest) and the establishment of a ₩20 trillion bank recapitalization fund (from which we received an aggregate of ₩1.7 trillion of capital in March 2009). In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 3.25% in order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy slowed in the second half of 2009 and into 2010, with some signs stabilization and possible improvement, the overall prospects for the Korean and global economy in 2010 and beyond remain uncertain. For example, in November 2009, the Dubai government announced a moratorium on the outstanding debt of Dubai World, a government-affiliated investment company. In addition, many governments worldwide, in particular in Greece and other countries in southern Europe, are showing increasing signs of fiscal stress and may experience difficulties in meeting their debt service requirements. Any of these or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are considering or are in the process of implementing exit strategies, in the form of reduced government spending, higher interest rates or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a materia l adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are exposed to adverse developments in the U.S. mortgage market through our holdings of collateralized debt obligations related to U.S. mortgage loans. As of December 31, 2009, we held, through Woori Bank, approximately ₩505 billion in face value of collateralized debt obligations. We recognized impairment losses of ₩332 billion in 2008 and ₩14 billion in 2009 with respect to our holdings of collateralized debt obligations. We are also exposed to adverse developments in the U.S. and global credit markets through our holdings of derivatives. As of December 31, 2009, our total exposure under credit derivatives outstanding was approximately ₩633 billion (including ₩108 billion of credit derivatives relating to Korean companies), principally through credit default swaps and total return swaps held by Woori Bank. We recognized losses on valuation of our credit derivatives amounting to ₩370 billion in 2008. In 2009, we recognized gains on valuation of our credit derivatives amounting to ₩90 billion, principally due to improved conditions in the U.S. credit markets. Future adverse developments in the U.S. sub-prime mortgage and U.S. and global credit markets could result in additional losses on collateralized debt obligations as well as credit derivatives held by us. In addition, due in part to our losses on collateralized debt obligations and other credit derivatives in recent years, the Financial Services Commission and the KDIC imposed an institutional warning on us as well as sanctions on certain current and former executive officers of Woori Bank in September 2009. 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 and Item 3D. Risk Factors Risks relating to government regulation and policy The Financial Services Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities. Beginning in the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been an overall decline and continuing volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest, which have resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments accounted for under the equity method.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, a potential rise in inflation rates and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2010 and for the foreseeable future remains uncertain.

New Basel Capital Accord

Beginning on January 1, 2008, the Financial Supervisory Service implemented Basel II in Korea, substantially affecting on the way risk is measured among Korean financial institutions, including us. Building upon the initial Basel Capital Accord of 1988, which focused primarily on capital adequacy and asset soundness as a measure of risk, Basel II expands this approach to contemplate additional areas of risk such as operational risk. Basel II also institutes new measures that require our commercial banking subsidiaries to take into account individual borrower credit risk and operational risk when calculating risk-weighted assets.

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank 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. Kyongnam Bank and Kwangju Bank currently use a

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standardized approach. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. After further impact assessment, the Basel Committee on Banking Supervision is expected to implement the new set of measures in 2012. The timing and scope of implementation of such measures in Korea remain uncertain. The implementation of such measures in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

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 KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

Dec. 31, 2005	June 30, 2006	Dec. 31, 2006	June 30, 2007	Dec. 31, 2007	June 30, 2008	Dec. 31, 2008	June 30, 2009
1,379.37	1,295.15	1,434.46	1,743.60	1,897.13	1,674.92	1,124.47	1,390.07
1,010.0	₩ 948.5	₩ 930.0	₩ 922.6	₩ 935.8	₩ 1,046.8	₩ 1,262.00	₩ 1,273.5
5.7%	5.3%	5.4%	5.6%	6.9%	6.9%	8.1%	5.6%
5.1%	4.9%	4.9%	5.3%	5.7%	5.8%	3.4%	4.2%

(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 Strategy and Finance of Korea.

Critical Accounting Estimates

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

Allowance for Credit Losses

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

We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our credit portfolio. That evaluation considers factors such as past loss experience, the financial condition of our

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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, 2009 included a total allowance for credit losses of ₩3,853 billion as of that date (including allowances of ₩296 billion with respect to credit-related commitments). Our total loan charge-offs, net of recoveries, amounted to ₩1,816 billion and our provision for credit losses amounted to ₩2,452 billion (which includes provisions for credit-related commitments of ₩44 billion) in 2009.

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.

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (ASC 820) (ASC 820), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). We determine the fair value of our financial instruments that are recognized or disclosed at fair value in the financial statements on a recurring basis in accordance with ASC 820. However, certain provisions of ASC 820 that relate to non-financial assets and non-financial liabilities that are not measured at fair value on a recurring basis were adopted on January 1, 2009.

The fair value hierarchy established in ASC 820 requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions reflect those that market participants would use in pricing the asset or liability at the measurement date. In accordance with ASC 820, we use the following three levels of inputs in measuring fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as certain securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities may include certain debt and equity securities and over-the-counter derivative contracts whose fair value is determined using a pricing model without significant unobservable inputs.

Level 3: Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

The fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in measuring fair value of our financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than those that are thinly traded or not quoted. In accordance with ASC 820, the criteria we use to determine whether the market for a financial instrument is active or inactive are based on the particular asset or liability.

As a result of the adoption of ASC 820, we have made certain amendments to the techniques we use in measuring the fair value of derivatives and other positions. These amendments change the way that the probability of default of a counterparty is factored into the valuation of derivative positions and include the impact of our own credit risk on derivatives and other liabilities measured at fair value.

In accordance with ASC 820, we maximize the use of observable inputs and minimize the use of unobservable inputs when developing fair value measurements. When market prices are available, we use quoted market prices to measure fair value. If market prices are not available, fair value measurements are based upon models that use primarily market-based or independently-sourced market parameters, including interest rate yield curves, prepayment speeds, option volatilities and currency rates.

We use either Level 1 or Level 2 measurements to determine the fair value of most financial instruments recorded in our financial statements. However, in circumstances where market prices are limited or unavailable, valuations may require significant management judgments or adjustments that utilize significant unobservable inputs, to determine fair value. In these cases, the applicable financial instruments are classified as Level 3.

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The following provides a brief description of our valuation methodologies used to measure fair value by type of financial instruments:

Trading and available-for-sale securities: The fair value of the securities included in trading assets and available for sale securities included in investments is recognized in our consolidated balance sheets based on quoted market prices, where available. For the securities traded in the over-the-counter market, we generally determine fair value utilizing internal valuation techniques or based on prices obtained from independent pricing services or brokers. Trading securities recorded by using valuation methods and prices obtained from pricing services or brokers are generally classified as Level 2 except in cases where such quoted prices include unobservable inputs to the models, in which case such financial instruments are classified as Level 3. We validate prices received from pricing services or brokers using a variety of methods, including, but not limited to, comparison to secondary pricing services, corroboration of pricing by reference to other independent market data such as secondary broker quotes and relevant benchmark indices, and review of pricing by our personnel who are familiar with market liquidity and other market-related conditions.

Derivatives assets and liabilities: Quoted market prices are available and used for our exchange-traded derivatives, such as certain interest rate futures and option contracts, which we classify as Level 1. However, substantially all of our derivatives are traded in over-the-counter markets where quoted market prices are not readily available. Over-the-counter derivatives are valued using internal valuation techniques. Valuation techniques and inputs to internally developed models depend on the type of derivative and nature of the underlying rate, price or index upon which the derivative s value is based. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2. When instruments are traded in less liquid markets and significant inputs are unobservable, such derivatives are classified as Level 3. Additionally, significant judgments are required when classifying financial instruments within the fair value hierarchy, particularly between Levels 2 and 3, as is the case for certain derivatives.

With respect to our derivative positions, the majority of which are valued using internally developed models that use as their basis observable market inputs as described above, an adjustment is necessary to reflect the credit quality of each derivative counterparty to arrive at fair value. The adjustment is based on market-based measures of credit risk to the extent available and also takes into account contractual factors designed to reduce our credit exposure to each counterparty. Credit valuation adjustments are applied to reflect our own credit risk when measuring derivative liabilities at fair value in accordance with the requirements of ASC 820. The methodology to determine the adjustment is consistent with counterparty credit risk adjustment and incorporates our credit spread as observed through the credit default swap market.

As of January 1, 2009, we adopted an amended guidance for the recognition of other-than-temporary impairment for debt securities. We consider other-than-temporary impairment for a debt security to have occurred if one of the following conditions is met: (i) we intend to sell the impaired debt security, (ii) it is more-likely-than-not that we will be required to sell the impaired debt security before recovery of the security s amortized cost basis or (iii) we do not expect to recover the entire amortized cost basis of the security. Our evaluation of whether we intend to sell an impaired debt security involves consideration of whether our management has decided to sell the security as of the relevant balance sheet date. Our evaluation of whether it is more-likely-than-not that we will be required to sell an impaired debt security before recovery of the security s amortized cost basis involves consideration of the likelihood of such sale in light of the relevant legal, regulatory or operational requirements. For an impaired debt security that we do not intend to sell and with respect to which it is not more-likely-than-not that we will be required to sell before recovery of such security s amortized cost basis, we consider both qualitative and quantitative valuation factors to evaluate whether we expect to recover the entire amortized cost basis of such security and the amount of the other-than-temporary impairment is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. We consider all available information relevant to the collectibility of the security, including credit enhancements, security structure, credit ratings and other relevant collateral characteristics.

For marketable equity securities, other-than-temporary impairment evaluations focus on whether evidence exists that supports recovery of the unrealized loss within a timeframe consistent with temporary impairment. Factors considered in this evaluation include the length of time and extent to which fair value is less than cost, the status of the security, our intent and ability to hold the security for a period of time sufficient to allow for any recovery in market value, and the conditions of the Korean and relevant foreign economies. Our management continues to closely monitor and evaluate these securities for impairment that is other-than-temporary. Unrealized losses for other-than-temporary impairment on equity securities are recognized as losses on investment securities in our consolidated financial statements.

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

Valuation Allowance for Deferred Tax Assets and Uncertain Tax Positions

In the normal course of business, we and our subsidiaries enter into transactions for which the tax treatment is unclear or subject to varying interpretations. We evaluate and assess the relative risks and merits of the appropriate tax treatment of transactions, filing positions and taxable income calculations after considering statutes, regulations, judicial precedent, and other information, and maintain tax accruals consistent with our evaluation of these relative risks and merits. The result of our evaluation and assessment is by its nature an estimate. We and our subsidiaries are routinely subject to audit and challenges from tax authorities. In the event we resolve a challenge for an amount different than amounts previously accrued, we will account for the difference in the period in which we resolve the matter. From January 1, 2007, with respect to accounting for uncertainty in our tax positions, we adopted Financial Accounting Standards Board (FASB) Interpretation, Accounting for Uncertainty in Income Taxes (ASC 740), which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

This interpretation uses a two-step approach, wherein a tax benefit is recognized if a tax position is more likely than not to be sustained upon examination by tax authorities, and the amount recognized is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon ultimate settlement with the tax authorities. Differences between tax positions taken in a tax return and amounts recognized are reflected in the financial statements as adjustments of income tax expense or deferred tax assets (liabilities). In addition, interest and penalties related to tax positions are classified as a component of income tax expense. ASC 740 also requires enterprises to make explicit disclosures at the end of each reporting period about uncertainties in their income tax positions, including detailed carry-forwards of tax benefits taken that do not qualify for financial statement recognition.

As a result of substantial losses previously incurred by certain of our subsidiaries, including Woori Bank, we had an aggregate of ₩514 billion of net operating loss carry-forwards as of December 31, 2009, which expire from 2010 to 2014. We may be able to use these net operating loss carry-forwards, as well as temporary differences in the amount of assets and liabilities recorded for tax purposes and accounting purposes, to reduce the amount of tax that we would otherwise be required to pay in future periods. We recognize all existing future tax benefits arising from these tax attributes as deferred tax assets and then, based on our internal estimates of our future profits, establish a valuation allowance to the extent that it is more likely than not that deferred tax assets will not be realized. We recognize an expense or benefit in calculating our income tax expense when there is a net change in our total deferred tax assets and liabilities in a period.

In 2007, we reduced the valuation allowance by ₩46 billion based on our expectations as of year-end regarding future profitability of our subsidiaries businesses, including our credit card business, and the

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resulting belief that it would be more likely than not that the realization of our subsidiaries net operating loss carry-forwards would be higher over the next few years. We recorded income tax expenses of ₩837 billion in 2007, which reflected the realization of parts of such net operating loss carry-forwards relating to such businesses of our subsidiaries. In 2008, we increased the valuation allowance by ₩24 billion based on our expectations as of year-end regarding future profitability of our subsidiaries businesses, including our credit card business, and the resulting belief that it would be more likely than not that the realization of our subsidiaries net operating loss carry-forwards would be lower over the next few years. We recorded income tax expenses of ₩358 billion in 2008, which reflected the realization of parts of such net operating loss carry-forwards relating to such businesses of our subsidiaries. In 2009, we decreased the valuation allowance by ₩6 billion based on our expectations as of year-end regarding future profitability of our subsidiaries businesses, including our credit card business, and the resulting belief that it would be more likely than not that the realization of our subsidiaries net operating loss carry-forwards would be higher over the next few years. We recorded income tax expenses of ₩379 billion in 2009, which reflected the realization of parts of such net operating loss carry-forwards relating to such businesses of our subsidiaries.

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

Goodwill and Other Intangible Assets

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

In connection with our past acquisitions and other transactions, we also recognized other intangible assets consisting principally of (i) exclusive contractual rights to act as the main bank for municipal governments and non-profit organizations, (ii) capitalized software costs and (iii) core deposit intangible assets reflecting the value of acquired demand deposits and savings accounts which we expect to maintain for an extended period of time because of generally stable customer relationships. See Note 14 of the notes to our consolidated financial statements. We recorded our other intangible assets at their estimated fair values. We amortize these intangible assets over their estimated useful lives. Any changes to the assumptions used in determining the fair values or the estimated useful lives of such assets could significantly affect the carrying values of these

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intangible assets. We periodically perform an impairment review on these intangible assets when circumstances warrant such an evaluation, and any impaired amounts are written off.

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

Results of Operations

Net Interest Income

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

	Year ended December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Interest and dividend income[1]					
Loans	₩ 9,629	₩ 12,528	₩ 10,764	30.1	(14.1)
Deposits in other banks	82	179	195	118.3	8.9
Trading securities	390	524	409	34.4	(21.9)
Investment securities	1,996	2,102	1,774	5.3	(15.6)
Call loans and securities purchased under resale agreements	95	132	131	38.9	(0.8)
Total interest and dividend income	12,192	15,465	13,273	26.8	(14.2)
Interest expense					
Deposits	4,925	6,917	5,481	40.4	(20.8)
Call money	96	137	87	42.7	(36.5)
Other borrowed funds	624	727	470	16.5	(35.4)
Secured borrowings	180	192	143	6.7	(25.5)
Long-term debt	1,831	2,429	2,405	32.7	(1.0)
Total interest expense	7,656	10,402	8,586	35.9	(17.5)
Net interest income[1]	₩ 4,536	₩ 5,063	₩ 4,687	11.6	(7.4)
Net interest margin[2]	2.28%	2.16%	1.86%		

(1) Excludes an interest payment of ₩88 billion we received from the Bank of Korea in 2008 on our deposit of required reserves. This interest payment was excluded as it was a one-time event in response to the global financial crisis and the Bank of Korea generally does not pay interest on its required reserves.

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

Comparison of 2009 to 2008

Interest and dividend income. Interest and dividend income decreased 14.2% from ₩15,465 billion in 2008 to ₩13,273 billion in 2009, primarily as a result of a 14.1% decrease in interest on loans. The average balance of our interest-earning assets increased by 7.3% from ₩234,711 billion in 2008 to ₩251,875 billion in 2009, which was primarily due to the growth in our loan portfolio and call loans and securities purchased under resale agreements. This increase was more than offset by a 132 basis point decrease in average yields on our interest-earning assets from 6.59% in 2008 to 5.27% in 2009, principally due to the decrease in the general level of interest rates in Korea in 2009.

The 14.1% decrease in interest on loans from ₩12,528 billion in 2008 to ₩10,764 billion in 2009 was primarily the result of:

a 193 basis point decrease in average yields on general purpose household loans from 7.03% in 2008 to 5.10% in 2009, which was partially offset by a 0.7% increase in the average volume of such loans from ₩56,945 billion in 2008 to ₩57,323 billion in 2009; and

a 102 basis point decrease in average yields on commercial and industrial loans from 6.89% in 2008 to 5.87% in 2009, which was partially offset by a 8.0% increase in the average volume of such loans from ₩98,392 billion in 2008 to ₩106,282 billion in 2009.

The average yields for general purpose household loans and commercial and industrial loans decreased primarily as a result of the lower interest rate environment in Korea in 2009, which reflected the low policy rate maintained by the Bank of Korea throughout 2009 as part of the Korean government s initiative to stimulate the domestic economy in the wake of the global financial crisis. The increase in the average volume of general purpose household loans reflected increased lending to consumers due to higher retail loan demand. The increase in the average volume of commercial and industrial loans mainly reflected an increase in lending to small- and medium-sized enterprise borrowers, primarily as a result of policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support to such borrowers. 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.

Overall, the average volume of our loans increased 3.1%, from ₩182,034 billion in 2008 to ₩187,682 billion in 2009, while the average yields on our loans decreased 114 basis points, from 6.88% in 2008 to 5.74% in 2009, reflecting the lower interest rate environment in Korea.

Our securities portfolio consists primarily of investment securities, of which a majority was debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Bank of Korea, the Korea Development Bank and the KDIC), as well as trading securities. Interest and dividends on trading and investment securities decreased 16.9% from ₩2,626 billion in 2008 to ₩2,183 billion in 2009, primarily due to a 133 basis point decrease in average yields on investment securities from 6.07% in 2008 to 4.74% in 2009, as well as a 188 basis point decrease in average yields on trading securities from 4.75% in 2008 to 2.87% in 2009, the effect of which was partially offset by an 8.0% increase in the average volume of investment securities from ₩34,636 billion in 2008 to ₩37,400 billion in 2009 and a 29.0% increase in the average volume of trading securities from ₩11,038 billion in 2008 to ₩14,241 billion in 2009. The decreases in average yields on investment and trading securities were principally due to the general decline in market interest rates in Korea for debt securities in 2009, which reflected the lower interest rate environment, as well as an increase in the proportion of fixed rate debt securities issued by entities related to the Korean government, which offer relatively lower interest rates, in our investment securities portfolio. The increase in the average volume of investment securities was mainly due to an increase in fixed rate debt securities issued by entities related to the Korean government that were held by us as held-to-maturity securities, including as a result of our increased purchases of short-term finance debentures issued by the Bank of Korea as a means of conservatively managing our temporary excess Won liquidity. The increase in the average volume of trading securities primarily reflected an increase in corporate debt securities and monetary stabilization bonds issued by the Bank of Korea that were held by us as trading securities.

Interest Expense. Interest expense decreased 17.5% from ₩10,402 billion in 2008 to ₩8,586 billion in 2009, primarily due to a 20.8% decrease in interest expense on deposits and a 35.4% decrease in interest expense on other borrowed funds. The average balance of our interest-bearing liabilities increased 9.9% from ₩225,933 billion in 2008 to ₩248,216 billion in 2009, principally due to increased deposits, which was more than offset by a 114 basis point decrease in the average cost of our interest-bearing liabilities from 4.60% in 2008 to 3.46% in 2009, which reflected the general decrease in market interest rates in 2009.

The 20.8% decrease in interest expense on deposits from ₩6,917 billion in 2008 to ₩5,481 billion in 2009 was primarily the result of:

- a 149 basis point decrease in the average cost of other time deposits (other than certificate of deposit accounts) from 5.26% in 2008 to 3.77% in 2009, which was partially offset by a 20.9% increase in the average volume of such deposits from ₩92,498 billion in 2008 to ₩111,828 billion in 2009; and

- a 30.9% decrease in the average volume of certificate of deposit accounts from ₩21,808 billion in 2008 to ₩15,070 billion in 2009, which was enhanced by a 114 basis point decrease in the average cost of such deposit accounts from 6.28% in 2008 to 5.14% in 2009.

The decreases in the average cost of other time deposits and certificate of deposit accounts were primarily the result of the lower interest rate environment in Korea in 2009. The decrease in the average volume of certificate of deposit mainly reflected a reduced emphasis on certificates of deposit, relative to other lower cost deposit products, in our marketing efforts in 2009, while the increase in the average volume of other time deposits was mainly attributable to increased demand for such deposit product as an alternative to higher-risk investments in light of continuing adverse economic conditions in Korea during 2009.

Overall, the average volume of our deposits increased by 13.2% from ₩155,625 billion in 2008 to ₩176,230 billion in 2009, primarily due to increased demand for deposits as alternatives to higher-risk investments, as well as our increased marketing efforts for deposits in order to fund our higher lending levels, while the average cost of our deposits decreased by 133 basis points from 4.44% in 2008 to 3.11% in 2009, which reflected the lower interest rate environment in Korea.

Other borrowed funds consist primarily of short-term borrowings from other banks, borrowings from our trust accounts, short-term debentures and borrowings from the Bank of Korea. The 35.4% decrease in interest expense on other borrowed funds from ₩727 billion in 2008 to ₩470 billion in 2009 was primarily due to a 213 basis point decrease in the average cost of short-term borrowings (other than from the Bank of Korea) from 5.34% in 2008 to 3.21% in 2009, reflecting the lower interest rate environment in 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 2.16% in 2008 to 1.86% in 2009, as the effect of a decrease in our net interest income was enhanced by an increase in the average volume of our interest-earning assets. Net interest income decreased 7.4% from ₩5,063 billion in 2008 to ₩4,687 billion in 2009, while the average volume of our interest-earning assets increased 7.3% from ₩234,711 billion in 2008 to ₩251,875 billion in 2009. The growth in average interest-earning assets was outpaced by a 9.9% increase in the average volume of our interest bearing liabilities from ₩225,933 billion in 2008 to ₩248,216 billion in 2009, while the decrease in interest and dividend income outpaced a decrease in interest expense. The magnitude of this decrease was enhanced by a decrease in our 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, from 1.99% in 2008 to 1.81% in 2009. The decrease in our net interest spread reflected a larger decrease in the average yield on our interest-earning assets compared to the decrease in the average cost of our interest-bearing liabilities from 2008 to 2009, primarily due to the the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest bearing liabilities in the context of the lower interest rate environment.

Comparison of 2008 to 2007

Interest and dividend income. Interest and dividend income increased 26.8% from ₩12,192 billion in 2007 to ₩15,465 billion in 2008, primarily as a result of a 30.1% increase in interest on loans. The average balance of our interest-earning assets increased by 18.2% from ₩198,528 billion in 2007 to ₩234,711 billion in 2008, which was primarily due to the growth in our loan portfolio. This increase was enhanced by a 45 basis point increase in average yields on our interest-earning assets from 6.14% in 2007 to 6.59% in 2008, principally due to the increase in the general levels of interest rates in Korea from 2007 to 2008.

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The 30.1% increase in interest on loans from ₩9,629 billion in 2007 to ₩12,528 billion in 2008 was primarily the result of:

- a 32.1% increase in the average volume of commercial and industrial loans from ₩74,505 billion in 2007 to ₩98,392 billion in 2008, which was enhanced by a 51 basis point increase in the average yields on such loans from 6.38% in 2007 to 6.89% in 2008; and

- a 49 basis point increase in average yields on general purpose household loans from 6.54% in 2007 to 7.03% in 2008, which was enhanced by a 5.1% increase in the average volume of such loans from ₩54,198 billion in 2007 to ₩56,945 billion in 2008.

The increase in the average volume of commercial and industrial loans was mainly due to increased demand for such loans from small- and medium-sized enterprise borrowers. The increase in the average volume of general purpose household loans reflected increased lending to consumers due to higher retail loan demand. The average yields for commercial and industrial loans and general purpose household loans increased primarily as a result of the general rise in market interest rates for such loans in Korea in 2008.

Overall, the average volume of our loans increased 23.3%, from ₩147,639 billion in 2007 to ₩182,034 billion in 2008, while the average yields on our loans increased 36 basis points, from 6.52% in 2007 to 6.88% in 2008, reflecting the higher interest rate environment in Korea.

Interest and dividends on trading and investment securities increased 10.1% from ₩2,386 billion in 2007 to ₩2,626 billion in 2008, primarily due to a 49 basis point increase in average yields on investment securities from 5.58% in 2007 to 6.07% in 2008, as well as an 81 basis point increase in average yields on trading securities from 3.94% in 2007 to 4.75% in 2008, the effect of which was partially offset by a 3.2% decrease in the average volume of investment securities from ₩35,764 billion in 2007 to ₩34,636 billion in 2008. The increases in average yields were principally due to the general rise in market interest rates in 2008, while the decrease in the average volume of investment securities was primarily due to a decrease in the volume of debt securities issued by Korean government agencies held as available-for-sale securities, mainly as a result of our increased sale of such securities in the second half of 2008.

Interest Expense. Interest expense increased 35.9% from ₩7,656 billion in 2007 to ₩10,402 billion in 2008, primarily due to a 40.4% increase in interest expense on deposits and a 32.7% increase in interest expense on long-term debt. The average balance of our interest-bearing liabilities increased 17.5% from ₩192,239 billion in 2007 to ₩225,933 billion in 2008, principally due to increased deposits and long-term debt. This increase was enhanced by a 62 basis point increase in the average cost of our interest-bearing liabilities from 3.98% in 2007 to 4.60% in 2008, which reflected the general rise in market interest rates in 2008.

The 40.4% increase in interest expense on deposits from ₩4,925 billion in 2007 to ₩6,917 billion in 2008 was primarily the result of:

- a 20.1% increase in the average volume of other time deposits (other than certificate of deposit accounts) from ₩76,989 billion in 2007 to ₩92,498 billion in 2008, which was enhanced by a 71 basis point increase in the average cost of such deposits from 4.55% in 2007 to 5.26% in 2008; and

- a 122 basis point increase in the average cost of certificate of deposit accounts from 5.06% in 2007 to 6.28% in 2008, which was enhanced by an 11.2% increase in the average volume of such deposit accounts from ₩19,618 billion in 2007 to ₩21,808 billion in 2008.

Overall, the average volume of our deposits increased by 16.8% from ₩133,280 billion in 2007 to ₩155,625 billion in 2008, primarily due to our increased marketing efforts for deposits in order to fund our higher lending levels, as well as increased demand for deposits as alternatives to higher-risk investments, while the average cost of our deposits increased by 74 basis points from 3.70% in 2007 to 4.44% in 2008, principally as a result of the higher interest rate environment in Korea.

The 32.7% increase in interest expense on long-term debt from ₩1,831 billion in 2007 to ₩2,429 billion in 2008 was mainly the result of a 25.6% increase in the average volume of such debt from ₩38,817 billion in 2007 to ₩48,747 billion in 2008, which was primarily due to our efforts to increase stable funding sources. This increase was enhanced by a 27 basis point increase in the average cost of such debt from 4.72% in 2007 to 4.99% in 2008, due mainly to the higher interest rate environment for such debt in Korea in 2008.

Net interest margin. Our overall net interest margin decreased from 2.28% in 2007 to 2.16% in 2008, 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 18.2% from ₩198,528 billion in 2007 to ₩234,711 billion in 2008, while net interest income increased 11.6% from ₩4,536 billion in 2007 to ₩5,063 billion in 2008. The growth in average interest-earning assets outpaced a 17.5% increase in the average balance of our interest-bearing liabilities from ₩192,239 billion in 2007 to ₩225,933 billion in 2008, while the increase in interest and dividend income outpaced an increase in interest expense. However, our net interest spread decreased from 2.16% in 2007 to 1.99% in 2008. The decrease in net interest spread reflected a larger increase in the average cost of our interest-bearing liabilities from 2007 to 2008 (including as a result of sharp growth in the average volume of other time deposits, where the increase in average cost was also relatively large), compared to the increase in the average yield on our interest-earning assets (which was slowed by decreases in average yields on credit card receivables and trade financing), primarily reflecting the continuing rate-based competition in the Korean banking industry for the marketing of both loan and deposit products.

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 2009 to 2008

Our provision for loan losses increased from ₩1,608 billion in 2008 to ₩2,408 billion in 2009, primarily as a result of increases in delinquencies and non-performing loans in our loan portfolios, particularly with respect to small- and medium-sized enterprise borrowers, in 2009.

Our loan charge-offs, net of recoveries, increased 322.3% from ₩430 billion in 2008 to ₩1,816 billion in 2009. This increase was attributable mainly to a ₩631 billion increase in net charge-offs of corporate loans, including primarily loans to small- and medium-sized enterprises, as a result of the continuing deterioration in the asset quality of such loans in 2009, as well as a ₩347 billion increase in net charge-offs of consumer loans for similar reasons.

Our provisions with respect to credit-related commitments decreased 72.0% from ₩157 billion in 2008 to ₩44 billion in 2009, due primarily to a decrease in our provisions for performance guarantees, as well as a decrease in our provisions for unused lines of credit.

Our other provisions increased from ₩71 billion in 2008 to ₩103 billion in 2009. This resulted primarily from an increase in our provisions for asset retirement obligations.

Comparison of 2008 to 2007

Our provision for loan losses increased from ₩219 billion in 2007 to ₩1,608 billion in 2008, primarily as a result of increases in delinquencies and non-performing loans in our loan portfolios, particularly with respect to small- and medium-sized enterprise and construction industry borrowers, as well as the overall growth in our corporate and consumer loan portfolios in 2008.

Our loan charge-offs, net of recoveries, increased 22.9% from ₩350 billion in 2007 to ₩430 billion in 2008. This increase was attributable mainly to a ₩74 billion decrease in recoveries on loans previously charged off, due primarily to lower recoveries on general purpose household loans and commercial and industrial loans.

Our provisions with respect to credit-related commitments changed from a reversal of provision of ₩54 billion in 2007 to a provision of ₩157 billion in 2008, due primarily to an increase in our provisions for performance guarantees, as well as an increase in our provisions for unused lines of credit.

Our other provisions increased from ₩36 billion in 2007 to ₩71 billion in 2008. This resulted primarily from an increase in our provisions for asset retirement 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, 2009, our coverage ratio, which is the ratio of our total allowance to non-performing loans, was 142.9%. For a discussion of allowance for loan losses, see Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Allocation of Allowances for Loan Losses.

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

	As of December 31,		
	2007	**2008**	**2009**
Impaired corporate loans as a percentage of total corporate loans	1.39%	2.94%	4.39%
Non-performing corporate loans as a percentage of total corporate loans	0.87	1.40	1.79
Allowance for loan losses for corporate loans as a percentage of total corporate loans	1.34	2.02	2.71
Allowance for loan losses for corporate loans as a percentage of impaired corporate loans	96.00	68.87	61.72
Allowance for loan losses for corporate loans as a percentage of non-performing corporate loans	154.05	144.69	151.40
Net charge-offs as a percentage of total corporate loans	0.19	0.18	0.74

During 2009, 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, increased due primarily to a significant increase in our impaired and non-performing loans to small- and medium-sized enterprises (despite higher levels of charge-offs of such loans), which outpaced the growth in our total corporate loan portfolio. Such increase in our impaired and non-performing loans to small- and medium-sized enterprises was primarily due to continuing adverse economic conditions in Korea in 2009. In addition, the level of allowance for loan losses for corporate loans as a percentage of non-performing corporate loans increased as the increase in non-performing corporate loans was outpaced by the increase in the level of allowance for loans losses for corporate loans in 2009. However, the level of allowance for loan losses for corporate loans as a percentage of impaired corporate loans decreased as the increase in impaired loans outpaced the increase in the level of allowance for loans losses for corporate loans in 2009.

During 2008, 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, increased due primarily to a significant increase in our impaired and non-performing loans to small- and medium-sized enterprises, which outpaced the growth in our total corporate loan portfolio. However, the level of allowance for loan losses for corporate loans as a percentage of both impaired and non-performing corporate loans decreased as the increases in impaired and non-performing loans, resulting primarily from deteriorating economic conditions in Korea starting in the second half of 2008, outpaced the increase in the level of allowance for loans losses for corporate loans in 2008.

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

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

	As of December 31,		
	2007	**2008**	**2009**
Non-performing consumer loans as a percentage of total consumer loans[1]	0.40%	0.49%	0.43%
Allowance for loan losses for consumer loans as a percentage of total consumer loans[1]	0.63	0.56	0.31
Allowance for loan losses for consumer loans as a percentage of non-performing consumer loans[1]	156.77	113.03	72.11
Net charge-offs of consumer loans as a percentage of total consumer loans[1]	0.24	0.18	0.74

(1) Excludes credit card balances.

During 2009, non-performing consumer loans and allowance for loan losses for consumer loans, each as a percentage of total consumer loans, decreased due to the growth of our consumer loan portfolio and improvement in the overall asset quality of our consumer loans as of December 31, 2009 compared to December 31, 2008 primarily as a result of increased charge-offs of such loans in late 2009. In addition, the level of allowance for such loan losses as a percentage of non-performing consumer loans decreased as the decrease in non-performing consumer loans, resulting primarily from increased charge-offs of such loans, was outpaced by the decrease in the level of allowance for loans losses for consumer loans in 2009.

During 2008, non-performing consumer loans as a percentage of total consumer loans increased due to an overall deterioration in the asset quality of our consumer loans primarily as a result of deteriorating economic conditions in Korea. However, the level of allowance for loan losses for consumer loans as a percentage of total consumer loans decreased due to the growth of our consumer loan portfolio. In addition, the level of allowance for such loan losses as a percentage of non-performing consumer loans decreased as the increase in non-performing consumer loans, resulting primarily from deteriorating economic conditions in Korea starting in the second half of 2008, outpaced the increase in the level of allowance for loans losses for consumer loans in 2008.

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

As of December 31,

	2007	2008	2009
Non-performing credit card balances as a percentage of total credit card balances	1.08%	1.33%	1.27%
Allowance for loan losses for credit card balances as a percentage of total credit card balances	1.78	2.26	1.89
Allowance for loan losses for credit card balances as a percentage of non-performing credit card balances	164.15	170.01	149.39
Net charge-offs as a percentage of total credit card balances	0.51	1.23	3.52

During 2009, non-performing credit card balances and the level of allowance for loan losses for credit card balances, in each case as a percentage of total credit card balances, as well as the level of allowance for such loan losses as a percentage of non-performing credit card balances, decreased primarily due to an improvement in the overall asset quality of our credit card portfolio as of December 31, 2009 compared to December 31, 2008, mainly as a result of increased charge-offs of delinquent credit card balances in late 2009.

During 2008, non-performing credit card balances and the level of allowance for loan losses for credit card balances, in each case as a percentage of total credit card balances, as well as the level of allowance for such loan losses as a percentage of non-performing credit card balances, increased due to an overall deterioration in the asset quality of our credit card portfolio, primarily as a result of deteriorating economic conditions in Korea.

Non-Interest Income

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

	Year ended December 31, (in billions of Won)			% Change	
	2007	**2008**	**2009**	**2007/2008**	**2008/2009**
Fees and commission income	₩ 1,691	₩ 1,993	₩ 1,888	17.9%	(5.3)%
Net trading revenue (loss)	15	(448)	277	N/M(1)	N/M(1)
Trust fees, net	25	34	22	36.0	(35.3)
Impairment loss on debt securities	(621)	(508)	(186)	(18.2)	(63.4)
Net gain (loss) on investment securities	879	(2)	1,023	N/M(1)	N/M(1)
Other non-interest income	233	238	428	2.1	79.8
Total non-interest income	₩ 2,222	₩ 1,307	₩ 3,452	(41.2)	164.1

(1) N/M = not meaningful.

Comparison of 2009 to 2008

Non-interest income increased 164.1% from ₩1,307 billion in 2008 to ₩3,452 billion in 2009. This increase was primarily attributable to:

a ₩1,023 billion net gain on investment securities in 2009 compared to a ₩2 billion net loss on investment securities in 2008;

net trading revenue of ₩277 billion in 2009 compared to a net trading loss of ₩448 billion in 2008; and

a ₩322 billion decrease in impairment loss on debt securities from ₩508 billion in 2008 to ₩186 billion in 2009.

Net gain on investment securities represents net realized gains (or losses) and impairment losses on securities in our investment portfolio, other than impairment losses on debt securities. We recorded net gain on investment securities in 2009, compared to net loss on investment securities in 2008, primarily as a result of ₩708 billion of gains realized by us upon our disposal of equity securities in 2009, including shares of Hyundai Engineering & Construction Co., Ltd. and POSCO. We recognized impairment losses of ₩117 billion in 2009 with respect to our holdings of equity securities and beneficiary certificates in our investment portfolio, compared to ₩137 billion in 2008.

Net trading revenue represents net realized and unrealized gains (or losses) on securities and derivatives in our trading portfolio. We recorded net trading revenue in 2009, compared to net trading loss in 2008, mainly due to ₩891 billion of net gain on foreign exchange spot contracts in 2009, as well as a ₩923 billion decrease in net losses on foreign exchange derivative instruments and a ₩215 billion increase in net gains on equity securities.

The 63.4% decrease in impairment loss on debt securities was primarily due to a decrease in impairment losses on our holdings of collateralized debt obligations.

Comparison of 2008 to 2007

Non-interest income decreased 41.2% from ₩2,222 billion in 2007 to ₩1,307 billion in 2008. This decrease was primarily attributable to:

- a ₩2 billion net loss on investment securities in 2008 compared to a ₩879 billion net gain on such securities in 2007; and

- a ₩448 billion net trading loss in 2008 compared to net trading revenue of ₩15 billion in 2007.

These decreases were partially offset by a ₩302 billion increase in fees and commission income from ₩1,691 billion in 2007 to ₩1,993 billion in 2008.

The ₩881 billion decrease in net gain on investment securities from 2007 to 2008 resulted primarily from a decrease in gains on disposal of investment securities, as gains of approximately ₩616 billion realized by us upon our disposal of shares of LG Card Co., Ltd. in 2007 were not repeated in 2008, as well as the deterioration of financial market conditions in 2008, which led to a decrease in the general level of securities prices. We recognized impairment losses of ₩137 billion in 2008 with respect to our holdings of equity securities and beneficiary certificates in our investment portfolio, compared to ₩61 billion in 2007.

The ₩463 billion decrease in net trading revenue from 2007 to 2008 was primarily the result of net losses of ₩1,444 billion on foreign exchange derivative instruments and ₩439 billion on credit derivative instruments in 2008, due mainly to increased foreign exchange rate volatility and derivatives trading volume. Such losses were partially offset by ₩1,296 billion of net gain on foreign exchange spot contracts in 2008.

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 transactions. The 17.9% increase in fees and commission income from 2007 to 2008 resulted primarily from increases in fees and commissions relating to our credit card transactions.

Non-Interest Expense

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

	Year ended December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Salaries and employee benefits	₩ 1,159	₩ 1,182	₩ 1,231	2.0%	4.1%
Other administrative expenses	1,001	1,181	1,151	18.0	(2.5)
Fees and commissions	295	447	461	51.5	3.1
Depreciation and amortization	289	340	282	17.6	(17.1)
Other non-interest expenses	723	986	968	36.4	(1.8)
Total non-interest expense	₩ 3,467	₩ 4,136	₩ 4,093	19.3	(1.0)

Comparison of 2009 to 2008

Non-interest expense remained relatively constant at ₩4,093 billion in 2009, compared to ₩4,136 billion in 2008, as decreases in depreciation and amortization expenses, other administrative expenses and other non-interest expenses were largely offset by increases in salaries and employee benefits and fees and commissions.

Comparison of 2008 to 2007

Non-interest expense increased 19.3% from ₩3,467 billion in 2007 to ₩4,136 billion in 2008. This increase was primarily due to:

a ₩263 billion increase in other non-interest expenses from ₩723 billion in 2007 to ₩986 billion in 2008;

- a ₩180 billion increase in other administrative expenses from ₩1,001 billion in 2007 to ₩1,181 billion in 2007; and

- a ₩152 billion increase in fees and commissions from ₩295 billion in 2007 to ₩447 billion in 2008.

Other non-interest expense consists mainly of losses on sales of loans, losses on disposal of premises and equipment, and various other items. The 36.4% increase in other non-interest expense resulted mainly from impairment of goodwill with respect to Woori Financial and Kumho Investment Bank Co., Ltd. in 2008. See Note 14 of the notes to our consolidated financial statements included elsewhere in this annual report.

Other administrative expenses consist mainly of rent, outside service fees and advertising expenses. The 18.0% increase in other administrative expenses was mainly due to increases in rents paid for employee housing and outside service provider fees.

Fees and commission expenses consist primarily of fees paid on credit cards, fees paid on remittances and collections and fees paid on letters of credit. The 51.5% increase in fees and commission expenses was primarily due to a ₩152 billion increase in fees and commission expenses related to our credit card operations, as the number and charge volume of our credit cards increased.

Income Tax Expense (Benefit)

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

Certain of our subsidiaries have significant net operating loss carry-forwards. Based on our internal estimates of our future profits, we establish a valuation allowance to the extent that it is more likely than not that such carry-forwards and other deferral tax assets will not be realized. Increases or decreases in such valuation allowance are recognized as part of our income tax expense. See Note 29 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison 2009 to 2008

Income tax expense increased 5.9% from ₩358 billion in 2008 to ₩379 billion in 2009. Such increase resulted primarily from an ₩1,005 billion increase in our income from continuing operations before income taxes from ₩486 billion in 2008 to ₩1,491 billion in 2009, the effect of which was partially offset by a decrease in the applicable statutory tax rate. See Note 29 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison 2008 to 2007

Income tax expense decreased from ₩837 billion in 2007 to ₩358 billion in 2008. Such decrease resulted primarily from a significant decrease in our income from continuing operations before income taxes from ₩3,091 billion in 2007 to ₩486 billion in 2008.

Net Income

Due to the factors described above, our net income in 2009 was ₩1,112 billion, compared to net income of ₩128 billion in 2008 and ₩2,253 billion in 2007.

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.

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

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

	Net income(1) Year ended December 31,			Total operating income(2) Year ended December 31,		
	2007	2008	2009	2007	2008	2009
	(in billions of Won)					
Woori Bank	₩ 1,654	₩ 160	₩ 760	₩ 20,347	₩ 74,402	₩ 43,447
Kyongnam Bank	161	210	193	1,353	2,718	1,843
Kwangju Bank	111	103	62	987	1,354	1,235
Credit card operations	124	74	195	722	1,006	1,051
Securities brokerage services	264	186	89	3,110	6,768	5,387
Other	2,094	501	1,115	2,732	2,054	3,171
Total(3)	₩ 4,408	₩ 1,234	₩ 2,414	₩ 29,251	₩ 88,302	₩ 56,134

(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 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	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Income statement data					
Interest and dividend income	₩ 9,969	₩ 12,616	₩ 10,485	26.6%	(16.9)%
Interest expense	6,245	8,413	6,739	34.7	(19.9)
Provision for loan losses and credit-related commitments	589	1,399	1,696	137.5	21.2

Non-interest income	10,378	61,786	32,962	495.4	(46.7)
Non-interest expense including depreciation and amortization	11,291	64,080	34,062	467.5	(46.8)
Net income before tax	2,222	510	950	(77.0)	86.3
Income tax expense (benefit)	567	349	190	(38.4)	(45.6)
Net income	₩ 1,655	₩ 161	₩ 760	(90.3)	372.0
Controlling interest	1,654	160	759	(90.3)	374.4
Noncontrolling interest	1	1	1	0.0	0.0
Net interest margin	2.6%	2.2%	1.9%		

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Comparison of 2009 to 2008

Our net income before tax for this segment increased 86.3% from ₩510 billion in 2008 to ₩950 billion in 2009. Net income after tax also increased 372.0% from ₩161 billion in 2008 to ₩760 billion in 2009.

Interest and dividend income from our Woori Bank operations decreased 16.9% from ₩12,616 billion in 2008 to ₩10,485 billion in 2009, primarily due to an overall decrease in average yields on interest-earning assets, which was partially offset by an increase in the average balance of Woori Bank s interest-earning assets. The decrease in average yields on interest-earning assets was attributable mainly to the lower interest rate environment in Korea. The average volume of Woori Bank s loans (excluding credit card receivables) on a non-consolidated basis increased 10.2% from ₩188,155 billion in 2008 to ₩207,256 billion in 2009, primarily as a result of an increase in the average volume of loans to small- and medium-sized enterprise borrowers, which reflected policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support for such borrowers.

Interest expense decreased 19.9% from ₩8,413 billion in 2008 to ₩6,739 billion in 2009. 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 in Korea. This decrease was partially offset by a 16.4% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from ₩166,075 billion in 2008 to ₩193,301 billion in 2009, which was attributable mainly to an increase in the average volume of deposits (principally time and savings deposits) reflecting increased demand for such deposits as alternatives to higher-risk investments.

Net interest income decreased 10.9% from ₩4,203 billion in 2008 to ₩3,746 billion in 2009. The decrease in net interest income primarily reflected a decrease in interest on loans, which was enhanced by a decrease in net interest spread. Such decrease in turn resulted from a larger decrease in the average yield of interest-bearing assets compared to a relatively smaller decrease in the average cost of interest-bearing liabilities, primarily reflecting the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of the lower interest rate environment.

Provision for loan losses and credit-related commitments increased from ₩1,399 billion in 2008 to ₩1,696 billion in 2009. The increase was primarily as a result of increases in delinquencies and non-performing loans in Woori Bank s loan portfolio, particularly with respect to small- and medium-sized enterprise, which reflected continuing adverse economic conditions in Korea during 2009.

Non-interest income decreased 46.7% from ₩61,786 billion in 2008 to ₩32,962 billion in 2009, primarily due to a decrease in gains on derivatives and foreign exchange, which mainly reflected decreased volatility and trading volume.

Non-interest expense, including depreciation and amortization, decreased 46.8% from ₩64,080 billion in 2008 to ₩34,062 billion in 2008, primarily as a result of a decrease in losses on derivatives and foreign exchange, which mainly reflected decreased volatility and trading volume.

Comparison of 2008 to 2007

Our net income before tax for this segment decreased 77.0% from ₩2,222 billion in 2007 to ₩510 billion in 2008. Net income after tax also decreased 90.3% from ₩1,655 billion in 2007 to ₩161 billion in 2008.

Interest and dividend income from our Woori Bank operations increased 26.6% from ₩9,969 billion in 2007 to ₩12,616 billion in 2008, primarily due to an increase in average lending volumes as well as an overall increase in average yields on interest-earning assets. The average volume of Woori Bank s loans (excluding credit card receivables) on a non-consolidated basis increased 14.8% from ₩129,294 billion in 2007 to ₩148,399 billion in 2008, with the majority of this increase resulting from increases in the average volumes of loans to large corporations and small- and medium-sized enterprises, reflecting increased demand for such loans. The increase in average yields on interest-earning assets was attributable mainly to the general increase in market interest rates.

Interest expense increased 34.7% from ₩6,245 billion in 2007 to ₩8,413 billion in 2008. The increase in interest expense was primarily due to a 7.4% increase in the average volume of interest-bearing liabilities on a non-consolidated basis from ₩154,501 billion in 2007 to ₩166,075 billion in 2008, which was attributable mainly to an increase in the average volume of deposits (principally other time deposits and savings deposits) due to Woori Bank s increased marketing efforts to attract deposits in order to fund its higher lending levels and increased demand for deposits as alternatives to higher-risk investments, as well as an increase in the average volume of long-term debt due to Woori Bank s efforts to increase stable funding sources. This increase was enhanced by an increase in the average cost of interest-bearing liabilities resulting from the higher interest rate environment in Korea.

Net interest income increased 12.8% from ₩3,724 billion in 2007 to ₩4,203 billion in 2008. The increase in net interest income primarily reflected the increase in interest on loans, which was partially offset by a decrease in net interest spread, which in turn resulted from a larger increase in the cost of interest-bearing liabilities, particularly for other time deposits and certificate of deposit accounts where the growth in average volume was relatively large, compared to the relatively smaller increase in the average yield on interest-earning assets.

Provision for loan losses and credit-related commitments increased from ₩589 billion in 2007 to ₩1,399 billion in 2008. The increase was primarily as a result of increases in delinquencies and non-performing loans in Woori Bank s loan portfolio, particularly with respect to small- and medium-sized enterprise and construction industry borrowers, as well as the overall growth in its loan portfolio in 2008.

Non-interest income increased 495.4% from ₩10,378 billion in 2007 to ₩61,786 billion in 2008, primarily due to an increase in gains on derivatives and foreign exchange, which mainly reflected increased volatility and trading volume.

Non-interest expense, including depreciation and amortization, increased 467.5% from ₩11,291 billion in 2007 to ₩64,080 billion in 2008, primarily as a result of increased losses on derivatives and foreign exchange, which mainly reflected increased volatility and trading volume.

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	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Income statement data					
Interest and dividend income	₩ 1,009	₩ 1,272	₩ 1,143	26.1%	(10.1)%
Interest expense	591	753	604	27.4	(19.8)
Provision for loan losses and credit-related commitments	38	95	65	150.0	(31.6)
Non-interest income	344	1,446	700	320.3	(51.6)
Non-interest expense including depreciation and amortization	503	1,586	918	215.3	(42.1)
Net income before tax	221	284	256	28.5	(9.9)
Income tax expense	60	74	63	23.3	(14.9)

Net income	₩	161	₩	210	₩	193	30.4	(8.1)
Controlling interest		161		210		193	30.4	(8.1)
Noncontrolling interest								

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Comparison of 2009 to 2008

Our net income before tax for this segment decreased 9.9% from ₩284 billion in 2008 to ₩256 billion in 2009. Net income after tax also decreased 8.1% from ₩210 billion in 2008 to ₩193 billion in 2009.

Interest and dividend income from our Kyongnam Bank operations decreased 10.1% from ₩1,272 billion in 2008 to ₩1,143 billion in 2009, primarily due to an overall decrease in average yields on interest-earning assets, resulting from the general decrease in market interest rates, which was partially offset by an increase in average lending volumes. The average volume of Kyongnam Bank s loans increased 5.2% from ₩13,916 billion in 2008 to ₩14,645 billion in 2009, primarily due to an increase in the average volume of loans to small- and medium-sized enterprises, reflecting policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support for such borrowers.

Interest expense decreased 19.8% from ₩753 billion in 2009 to ₩604 billion in 2009. The decrease in interest expense resulted principally from a decrease in the average cost of interest-bearing liabilities due to the lower interest rate environment. This decrease was partially offset by a 7.1% increase in the average volume of deposits from ₩12,282 billion in 2008 to ₩13,154 billion in 2009, primarily as a result of increased demand for bank deposit products (principally demand deposits) in southeastern Korea.

Provision for loan losses and credit-related commitments decreased 31.6% from ₩95 billion in 2008 to ₩65 billion in 2009, primarily due to improvement in the asset quality of Kyongnam Bank s consumer and small- and medium-sized enterprise loan portfolios, primarily as a result of higher levels of charge-offs, which was partially offset by increased lending volumes.

Non-interest income decreased 51.6% from ₩1,446 billion in 2008 to ₩700 billion in 2009, primarily due to a decrease in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, decreased 42.1% from ₩1,586 billion in 2008 to ₩918 billion in 2009**,** primarily due to a decrease in losses on derivatives and foreign exchange.

Comparison of 2008 to 2007

Our net income before tax for this segment increased 28.5% from ₩221 billion in 2007 to ₩284 billion in 2008. Net income after tax also increased 30.4% from ₩161 billion in 2007 to ₩210 billion in 2008.

Interest and dividend income from our Kyongnam Bank operations increased 26.1% from ₩1,009 billion in 2007 to ₩1,272 billion in 2008, primarily due to an increase in average lending volumes, which was enhanced by an overall increase in average yields on interest-earning assets. The average volume of Kyongnam Bank s loans increased 16.0% from ₩11,996 billion in 2007 to ₩13,916 billion in 2008, with substantially all of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises, reflecting increased demand for, and Kyongnam Bank s continued focus on providing, these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 27.4% from ₩591 billion in 2007 to ₩753 billion in 2008. The increase in interest expense resulted principally from an 7.4% increase in the average volume of deposits from ₩11,441 billion in 2007 to ₩12,282 billion in 2008, primarily as a result of increased overall demand for bank deposit products (principally other time deposits and savings deposits) in Korea. This increase was enhanced by an increase in long-term debt as well as an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment.

Provision for loan losses and credit-related commitments increased 150.0% from ₩38 billion in 2007 to ₩95 billion in 2008, primarily due to increases in delinquencies and non-performing loans in Kyongnam Bank s loan portfolio, particularly with respect to small- and medium-sized enterprise borrowers, as well as the overall growth in its loan portfolio in 2008.

Non-interest income increased 320.3% from ₩344 billion in 2007 to ₩1,446 billion in 2008, primarily due to an increase in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, increased 215.3% from ₩503 billion in 2007 to ₩1,586 billion in 2008**,** primarily due to an increase in losses on derivatives and foreign exchange.

Kwangju Bank

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

	Year ended December 31, 2007	2008	2009	% Change 2007/2008	2008/2009
	(in billions of Won)				
Income statement data					
Interest and dividend income	₩ 868	₩ 1,025	₩ 907	18.1%	(11.5)%
Interest expense	532	640	489	20.3	(23.6)
Provision for loan losses and credit-related commitments	50	84	154	68.0	83.3
Non-interest income	119	329	328	176.5	(0.3)
Non-interest expense including depreciation and amortization	254	485	509	90.9	4.9
Net income before tax	151	145	83	(4.0)	(42.8)
Income tax expense (benefit)	40	42	21	5.0	(50.0)
Net income	₩ 111	₩ 103	₩ 62	(7.2)	(39.8)
Controlling interest	111	103	62	(7.2)	(39.8)
Noncontrolling interest					

Comparison of 2009 to 2008

Our net income before tax for this segment decreased 42.8% from ₩145 billion in 2008 to ₩83 billion in 2009. Net income after tax also decreased 39.8% from ₩103 million in 2008 to ₩62 million in 2009.

Interest and dividend income from our Kwangju Bank operations decreased 11.5% from ₩1,025 billion in 2008 to ₩907 billion in 2009, primarily due to an overall decrease in average yields on interest-earning assets resulting from the general decrease in market interest rates, which was partially offset by an increase in average lending volumes. The average volume of Kwangju Bank s loans increased 1.6% from ₩10,525 billion in 2008 to ₩10,692 billion in 2009, with the majority of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises, which reflected policies and initiatives introduced by the Korean government to encourage Korean banks to provide financial support for such borrowers.

Interest expense decreased 23.6% from ₩604 billion in 2009 to ₩489 billion in 2009. The decrease in interest expense resulted principally from a decrease in the average cost of interest-bearing liabilities due to the lower interest rate environment. This decrease was enhanced by a 2.5% decrease in the average volume of deposits from

₩10,916 billion in 2008 to ₩10,639 billion in 2009, primarily as a result of Kwangju Bank s decreased focus on providing time deposit products to consumers in 2009.

Provision for loan losses and credit-related commitments increased 83.3% from ₩84 billion in 2008 to ₩154 billion in 2009, primarily due to increases in delinquencies and non-performing loans in Kwangju Bank s loan portfolio, particularly with respect to small- and medium-sized enterprise borrowers.

Non-interest income remained relatively constant at ₩328 billion in 2009 compared to ₩329 billion in 2008.

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Non-interest expense, including depreciation and amortization, increased 4.9% from ₩485 billion in 2008 to ₩509 billion in 2009**,** primarily due to a decrease in losses on foreign exchange.

Comparison of 2008 to 2007

Our net income before tax for this segment decreased 4.0% from ₩151 billion in 2007 to ₩145 billion in 2008. Net income after tax also decreased 7.2% from ₩111 billion in 2007 to ₩103 in 2008.

Interest and dividend income from our Kwangju Bank operations increased 18.1% from ₩868 billion in 2007 to ₩1,025 billion in 2008, primarily due to an increase in average lending volumes, which was enhanced by an overall increase in average yields on interest-earning assets. The average volume of Kwangju Bank s loans increased 14.2% from ₩9,215 billion in 2007 to ₩10,525 billion in 2008, with the majority of this increase resulting from an increase in the average volume of loans to small- and medium-sized enterprises, reflecting increased demand for these loan products. The increase in interest income resulting mainly from the increased volume of interest-earning assets was enhanced by an increase in average yields on interest-earning assets resulting from the general increase in market interest rates.

Interest expense increased 20.3% from ₩532 billion in 2007 to ₩640 billion in 2008. The increase in interest expense resulted principally from an increase in the average cost of interest-bearing liabilities due to the higher interest rate environment, which was enhanced by a slight increase in the average volume of deposits in 2008.

Provision for loan losses and credit-related commitments increased 68.0% from ₩50 billion in 2007 to ₩84 billion in 2008, primarily due to increases in delinquencies and non-performing loans in Kwangju Bank s loan portfolio, particularly with respect to small- and medium-sized enterprise borrowers, as well as the overall growth in its loan portfolio in 2008.

Non-interest income increased 176.5% from ₩119 billion in 2007 to ₩329 billion in 2008. This increase was due primarily to increase in gains on derivatives and foreign exchange.

Non-interest expense, including depreciation and amortization, increased 90.9% from ₩254 billion in 2007 to ₩485 billion in 2008. This increase was due primarily to increases in losses on derivatives and foreign exchange.

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Credit Card Operations

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

	Year ended December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Income statement data					
Interest and dividend income	₩ 693	₩ 929	₩ 1,000	34.1%	7.6%
Interest expense	95	205	128	115.8	(37.6)
Provision for loan losses and credit-related commitments	79	166	201	110.1	21.1
Non-interest income	29	77	51	165.5	(33.8)
Non-interest expense including depreciation and amortization	377	538	465	42.7	(13.6)
Net income before tax	171	97	257	(43.3)	164.9
Income tax expense[(1)]	47	23	62	(51.1)	169.6
Net income	₩ 124	₩ 74	₩ 195	(51.1)	163.5
Controlling Interest	124	74	195	(51.1)	163.5
Noncontrolling interest					

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

Comparison of 2009 to 2008

Our net income before tax for this segment increased 164.9% from ₩97 billion in 2008 to ₩257 billion in 2009. Net income after tax also increased 163.5% from ₩74 billion in 2008 to ₩195 billion in 2009.

Interest and dividend income for this segment increased 7.6% from ₩929 billion in 2008 to ₩1,000 billion in 2009. This increase was attributable primarily to growth in the average volume of outstanding credit card balances due to increases in both purchases made by our cardholders and the number of new cardholders. This increase was enhanced by a slight increase in the average yields on credit card balances resulting principally from a decrease in interest-free installment payment benefits extended by us to our cardholders, as well as an increase in the proportion of consumer credit card purchases, which typically carry higher interest rates, relative to our overall credit card balances.

Interest expense decreased 37.6% from ₩205 billion in 2008 to ₩128 billion in 2009 principally due to a decrease in our internal funding rate applicable to the inter-segment allocation of funds to our credit card segment, which was partially offset by an increase in the average volume of such funds.

Provision for loan losses and credit-related commitments increased 21.1% from ₩166 billion in 2008 to ₩201 billion in 2009, reflecting overall deterioration in the asset quality of our credit card receivables and credit-related commitments throughout most of 2009. In 2009, our credit card operations charged off credit card balances amounting to ₩193 billion, as compared to ₩105 billion in 2008.

Non-interest income decreased 33.8% from ₩77 billion in 2008 to ₩51 billion in 2009 primarily as a result of a decrease in valuation gain on our equity method investment in BC Card from ₩48 billion in 2008 to ₩15 billion in 2009.

Non-interest expense, which includes depreciation and amortization, decreased 13.6% from ₩538 billion in 2008 to ₩465 billion in 2009. This decrease was primarily due to a decrease commissions paid in connection with our credit card operations, as well as a decrease in selling, general and administrative expenses related to this segment reflecting our cost reduction efforts in 2009.

Comparison of 2008 to 2007

Our net income before tax for this segment decreased 43.3% from ₩171 billion in 2007 to ₩97 billion in 2008. Net income after tax also decreased 40.3% from ₩124 billion in 2007 to ₩74 billion in 2008.

Interest and dividend income for this segment increased 34.1% from ₩693 billion in 2007 to ₩929 billion in 2008. This increase was attributable primarily to growth in the average volume of outstanding credit card balances due to increases in both the number of new cardholders and purchases made by our cardholders.

Interest expense increased 115.8% from ₩95 billion in 2007 to ₩205 billion in 2008 principally due to an increase in the average volume of inter-segment allocation of funds to our credit card segment, which was enhanced by an increase in our internal funding rate applicable to such funds.

Provision for loan losses and credit-related commitments increased 110.1% from ₩79 billion in 2007 to ₩166 billion in 2008, reflecting overall deterioration in the asset quality of our credit card receivables and credit-related commitments in 2008. In 2008, our credit card operations charged off credit card balances amounting to ₩105 billion, as compared to ₩78 billion in 2007.

Non-interest income increased 165.5% from ₩29 billion in 2007 to ₩77 billion in 2008. This increase resulted principally from a ₩48 billion increase in valuation gain on our equity method investment in BC Card.

Non-interest expense, which includes depreciation and amortization, increased 42.7% from ₩377 billion in 2007 to ₩538 billion in 2008. This increase was primarily due to an increase in commissions paid in connection with our credit card operations, as well as an increase in selling, general and administrative expenses related to this segment.

Securities Brokerage Services

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

	Year ended December 31, (in billions of Won)			% Change	
	2007	2008	2009	2007/2008	2008/2009
Income statement data					
Interest and dividend income	₩ 549	₩ 775	₩ 651	41.2%	(16.0)%
Interest expense	342	470	304	37.4	(35.3)
Provision for loan losses and credit-related commitments (reversal of provision)	0	39	112	N/M(1)	187.2
Non-interest income	2,561	5,993	4,736	134.0	(21.0)
Non-interest expense including depreciation and amortization	2,389	5,992	4,846	150.8	(19.1)

Net income before tax	379	267	125	(29.6)	(53.2)
Income tax expense	115	81	36	(29.6)	(55.6)
Net income	₩ 264	₩ 186	₩ 89	(29.5)	(52.2)
Controlling interest	264	186	89	(29.5)	(52.2)
Noncontrolling interest					

(1) N/M = not meaningful.

Comparison of 2009 to 2008

Our net income before tax for this segment decreased 53.2% from ₩267 billion in 2008 to ₩125 billion in 2008. Net income after tax also decreased 52.2% from ₩186 billion in 2008 to ₩89 billion in 2009.

Interest and dividend income for this segment decreased 16.0% from ₩775 billion in 2008 to ₩651 billion in 2009, principally due to decreases in interest and dividend payments due to lower average yields on the securities held by Woori Investment & Securities, reflecting the lower interest rate environment in Korea in 2009, as well as a decrease in interest income from Woori Investment & Securities merchant banking operations, which it discontinued from October 2009.

Interest expense decreased 35.3% from ₩470 billion in 2008 to ₩304 billion in 2009, primarily as a result of a decrease in interest expense relating to both Won and foreign currency borrowings of Woori Investment & Securities, which reflected the lower interest rate environment.

Provision for loan losses and credit-related commitments increased 187.2% from ₩39 billion in 2008 to ₩112 billion in 2009, primarily as a result of a deterioration in the asset quality of Woori Investment & Securities project finance-related commitments.

Non-interest income, which includes commission income from our brokerage operations, decreased 21.0% from ₩5,993 billion in 2008 to ₩4,736 billion in 2009, mainly due to a decrease in gain on transaction and valuation of derivatives, which reflected reduced foreign exchange and interest rate volatility and transaction volume.

Non-interest expense, which includes depreciation and amortization, decreased 19.1% from ₩5,992 billion in 2008 to ₩4,846 billion in 2008, primarily as a result of a decrease in loss on transaction and valuation of derivatives, which reflected reduced foreign exchange and interest rate volatility and transaction volume.

Comparison of 2008 to 2007

Our net income before tax for this segment decreased 29.6% from ₩379 billion in 2007 to ₩267 billion in 2008. Net income after tax also decreased 29.5% from ₩264 billion in 2007 to ₩186 billion in 2008.

Interest and dividend income for this segment increased 41.2% from ₩549 billion in 2007 to ₩775 billion in 2008, primarily as a result of increases in interest and dividend payments due to continued growth in the average volume of securities held by Woori Investment & Securities, particularly finance debentures.

Interest expense increased 37.4% from ₩342 billion in 2007 to ₩470 billion in 2008, primarily as a result of an increase in the average volume of secured borrowings of Woori Investment & Securities.

Provision for loan losses and credit-related commitments changed from less than ₩1 billion in 2007 to ₩39 billion in 2008, primarily as a result of a deterioration in the asset quality of Woori Investment & Securities margin loans.

Non-interest income, which includes commission income from our brokerage operations, increased 134.0% from ₩2,561 billion in 2007 to ₩5,993 billion in 2008, primarily as a result of an increase in gain on transaction of derivatives, as well as an increase in gain on valuation of structured securities (including equity-linked securities).

Non-interest expense, which includes depreciation and amortization, increased 150.8% from ₩2,389 billion in 2007 to ₩5,992 billion in 2008, primarily as a result of an increase in loss on valuation of structured securities (including equity-linked securities), as well as an increase in loss on transaction of derivatives.

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Other Operations

Other operations include the operations of Woori Finance Holdings and all of our subsidiaries that were consolidated under Korean GAAP as of December 31, 2009 except Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities, including principally Woori Finance Information System, Woori F&I, Woori Asset Management, Woori Financial (in which we acquired a 51.4% interest, on a U.S. GAAP basis, in September 2007), Woori Aviva Life Insurance (in which we acquired a 51.0% interest, on a U.S. GAAP basis, in April 2008) and a number of other smaller subsidiaries, none of which constituted a separate reportable segment.

	Year ended December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Income statement data					
Interest and dividend income	₩ 91	₩ 328	₩ 416	260.4%	26.8%
Interest expense	155	324	449	109.0	38.6
Provision for loan losses and credit-related commitments (reversal of provision)	4	34	69	750.0	102.9
Non-interest income	2,641	1,726	2,755	(34.6)	59.6
Non-interest expense including depreciation and amortization	457	1,174	1,504	156.9	28.1
Net income before tax	2,116	522	1,149	(75.3)	120.1
Income tax expense	21	26	34	23.8	30.8
Net income	₩ 2,095	₩ 496	₩ 1,115	(76.1)	124.8
Controlling interest	2,094	501	1,098	(76.3)	119.2
Noncontrolling interest	1	(5)	17	N/M(1)	N/M(1)

(1) N/M = not meaningful.

Comparison of 2009 to 2008

Our net income before tax for this segment increased 120.1% from ₩522 billion in 2008 to ₩1,149 billion in 2009. Net income after tax also increased 124.8% from ₩496 billion in 2008 to ₩1,115 billion in 2009.

Interest and dividend income increased 26.8% from ₩328 billion in 2008 to ₩416 billion in 2009. This increase was primarily due to an increase in the average volume of loans by Woori Financial, which was partially offset by a decrease in average yields on such loans resulting from the general decrease in market interest rates in Korea in 2009.

Interest expense increased 38.6% from ₩324 billion in 2008 to ₩449 billion in 2009. This increase was principally the result of an increase in the average volume of debentures issued by Woori Financial, which was partially offset by a decrease in the average cost of such debentures.

Provision for loan losses and credit-related commitments increased 102.9% from ₩34 billion in 2008 to ₩69 billion in 2009. This increase was primarily as a result of increased delinquencies in, as well as the growth of, Woori Financial s loan portfolio.

Non-interest income increased 59.6% from ₩1,726 billion in 2008 to ₩2,755 billion in 2009. This increase was attributable primarily to the inclusion of Woori Aviva Life Insurance s full-year results of operations in this segment commencing in 2009.

Non-interest expense, including depreciation and amortization, increased 28.1% from ₩1,174 billion in 2008 to ₩1,504 billion in 2009, mainly as the result of the inclusion of Woori Aviva Life Insurance s full-year results of operations in this segment commencing in 2009.

Comparison of 2008 to 2007

Our net income before tax for this segment decreased 75.3% from ₩2,116 billion in 2007 to ₩522 billion in 2008. Net income after tax also decreased 76.3% from ₩2,095 billion in 2007 to ₩496 billion in 2008.

Interest and dividend income increased 260.4% from ₩91 billion in 2007 to ₩328 billion in 2008. This increase was primarily due to an increase in interest and dividend income of Woori Private Equity that was allocated to this segment following its consolidation in 2008 of its portfolio companies, which were previously not consolidated for this segment, as well as an increase in the average volume of loans by Woori Financial.

Interest expense increased 109.0% from ₩155 billion in 2007 to ₩324 billion in 2008. This increase was primarily due to an increase in interest expense of Woori Private Equity that was allocated to this segment following its consolidation in 2008 of its portfolio companies, which were previously not consolidated for this segment, as well as increases in the average volume and average cost of debentures issued by Woori Financial in 2008.

Provision for loan losses and credit-related commitments increased from ₩4 billion in 2007 to ₩34 billion in 2008. This increase was primarily as a result of increased delinquencies in Woori Financial s loan portfolio.

Non-interest income decreased 34.6% from ₩2,641 billion in 2007 to ₩1,726 billion in 2008. This increase was attributable primarily to losses recorded by Woori Finance Holdings in 2008 on valuation of investments in affiliates accounted for under the equity method, principally Woori Bank, due to decreases in net income recorded by our subsidiaries.

Non-interest expense, including depreciation and amortization, increased 156.9% from ₩457 billion in 2007 to ₩1,174 billion in 2008 primarily due to non-interest expenses of Woori Aviva Life Insurance that were allocated to this segment following our acquisition of Woori Aviva Life Insurance in April 2008.

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	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Cash and cash equivalents	₩ 11,553	₩ 13,564	₩ 16,581	17.4%	22.2%
Restricted cash	131	2,761	588	2,007.6	(78.7)
Interest-bearing deposits in other banks	2,128	1,747	2,207	(17.9)	26.3
Call loans and securities purchased under resale agreements	1,695	3,692	6,524	117.8	76.7
Trading securities	12,173	19,817	14,225	62.8	(28.2)
Available-for-sale securities	27,235	23,406	16,059	(14.1)	(31.4)
Held-to-maturity securities	8,216	9,612	15,974	17.0	66.2
Other investment assets	2,051	2,417	2,565	17.8	6.1

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	As of December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
	(in billions of Won)				
Loans:					
Domestic:					
Commercial:					
Commercial and industrial	76,050	93,931	96,484	23.5	2.7
Lease financing	272	425	578	56.3	36.0
Trade financing	8,754	12,201	10,321	39.4	(15.4)
Other commercial[1]	6,496	8,266	6,602	27.2	(20.1)
Total commercial	91,572	114,823	113,985	25.4	(0.7)
Consumer:					
General purpose household[2]	56,176	56,911	58,127	1.3	2.1
Mortgage	3,248	3,275	3,806	0.8	16.2
Credit cards	3,325	4,294	4,098	29.1	(4.6)
Total consumer	62,749	64,480	66,031	2.8	2.4
Total domestic	154,321	179,303	180,016	16.2	0.4
Foreign:					
Commercial:					
Commercial and industrial	5,327	9,015	7,393	69.2	(18.0)
Trade financing	138	185	92	34.1	(50.3)
Total commercial	5,465	9,200	7,485	68.3	(18.6)
Consumer:	99	129	116	30.3	(10.1)
Total foreign	5,564	9,329	7,601	67.7	(18.5)
Deferred origination costs	(3)	28	96	(1,033.3)	242.9
Less: unearned income	(17)	(51)	(98)	200.0	92.2
Less: allowance for loan losses	(1,735)	(2,942)	(3,557)	69.6	20.9
Total loans, net	158,130	185,667	184,058	17.4	(0.9)
Due from customers on acceptances	249	789	791	216.9	0.3
Premises and equipment, net	2,399	2,454	2,611	2.3	6.4
Accrued interest and dividends receivable	950	1,079	956	13.6	(11.4)
Assets held for sale	132	351	591	165.9	68.4
Goodwill	232	136	114	(41.4)	(16.2)
Other assets	3,601	3,653	3,180	1.4	(12.9)
Total assets	₩ 230,875	₩ 271,145	₩ 267,024	17.4	(1.5)

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

(2) Includes home equity loans.

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

Comparison of 2009 to 2008

Our total assets decreased 1.5% from ₩271,145 billion as of December 31, 2008 to ₩267,024 billion as of December 31, 2009, principally due to a 31.4% decrease in available-for-sale securities from ₩23,406 billion as of December 31, 2008 to ₩16,059 billion as of December 31, 2009, a 28.2% decrease in trading securities from ₩19,817 billion as of December 31, 2008 to ₩14,225 billion as of December 31, 2009 and a 78.7% decrease in restricted cash from ₩2,761 billion as of December 31, 2008 to ₩588 billion as of

December 31, 2009. The effect of these decreases was partially offset by a 66.2% increase in held-to-maturity securities from ₩9,612 billion as of December 31, 2008 to ₩15,974 billion as of December 31, 2009, a 22.2% increase in cash and cash equivalents from ₩13,564 billion as of December 31, 2008 to ₩16,581 billion as of December 31, 2009 and a 76.7% increase in call loans and securities purchased under resale agreements from ₩3,692 billion as of December 31, 2008 to ₩6,524 billion as of December 31, 2009.

Comparison of 2008 to 2007

Our total assets increased 17.4% from ₩230,875 billion as of December 31, 2007 to ₩271,145 billion as of December 31, 2008 principally due to a 16.2% increase in domestic commercial loans and consumer credits from ₩154,321 billion as of December 31, 2007 to ₩179,303 billion as of December 31, 2008 and a 62.8% increase in trading securities from ₩12,173 billion as of December 31, 2007 to ₩19,817 billion as of December 31, 2008. The increase in domestic commercial loans and consumer credits was largely due to a 23.5% increase in domestic commercial and industrial loans, from ₩76,050 billion as of December 31, 2007 to ₩93,931 billion as of December 31, 2008, and a 39.4% increase in trade financing from ₩8,754 billion as of December 31, 2007 to ₩12,201 billion as of December 31, 2008.

Liabilities and Equity

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

	As of December 31,			% Change	
	2007	2008	2009	2007/2008	2008/2009
		(in billions of Won)			
Deposits					
Interest-bearing	₩ 140,359	₩ 161,653	₩ 170,547	15.2%	5.5%
Non-interest-bearing	4,668	6,679	7,027	43.1	5.2
Call money	3,008	2,960	5,687	(1.6)	92.1
Trading liabilities	2,981	11,286	4,131	278.6	(63.4)
Acceptances outstanding	249	789	791	216.9	0.3
Other borrowed funds	13,932	18,458	12,835	32.5	(30.5)
Secured borrowings	3,486	3,401	2,277	(2.4)	(33.0)
Long-term debt	41,336	44,470	43,340	7.6	(2.5)
Accrued interest payable	2,892	3,317	2,554	14.7	(23.0)
Other liabilities	5,494	5,871	4,613	6.9	(21.4)
Total liabilities	218,405	258,884	253,802	18.5	(2.0)
Stockholders equity	12,114	11,920	12,866	(1.6)	7.9
Noncontrolling interest[1]	356	341	356	(4.2)	4.4
Total equity	₩ 12,470	₩ 12,261	₩ 13,222	(1.7)	7.8
Total liabilities and equity	₩ 230,875	₩ 271,145	₩ 267,024	17.4%	(1.5)%

(1) On January 1, 2009, we adopted ASC 810-10-45-15. As a result, minority interests have been recharacterized as noncontrolling interests and reclassified as a component of equity. Corresponding items for prior periods have

been restated accordingly.

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

Comparison of 2009 to 2008

Our total liabilities decreased 2.0% from ₩258,884 billion as of December 31, 2008 to ₩253,802 billion as of December 31, 2009. The decrease was primarily due to decreases in trading liabilities and other borrowed funds. Our trading liabilities decreased 63.4% from ₩11,286 billion as of December 31, 2008 to ₩4,131 billion as of December 31, 2009, primarily due to decreases in foreign currency and interest rate derivatives. Our other borrowed funds decreased 30.5% from ₩18,458 billion as of December 31, 2008 to ₩12,835 billion as of December 31, 2009, primarily due to decreases in our borrowings in foreign currency and from trust accounts. The effect of these decreases was partially offset by a 5.5% increase in our interest-bearing deposits from ₩161,653 billion as of December 31, 2008 to ₩170,547 billion as of December 31, 2009, primarily due to an increase in other time deposits.

Our total equity increased by 7.8% from ₩12,261 billion as of December 31, 2008 to ₩13,222 billion as of December 31, 2009. This increase resulted principally from a increase in our retained earnings, which was attributable to the net income we generated in 2009.

Comparison of 2008 to 2007

Our total liabilities increased 18.5% from ₩218,405 billion as of December 31, 2007 to ₩258,884 billion as of December 31, 2008. The increase was primarily due to increases in interest-bearing deposits, trading liabilities and long-term debt. Our interest-bearing deposits increased 15.2% from ₩140,359 billion as of December 31, 2007 to ₩161,653 billion as of December 31, 2008, primarily due to increases in other time deposits and savings deposits. Our trading liabilities increased 278.6% from ₩2,981 billion as of December 31, 2007 to ₩11,286 billion as of December 31, 2008, primarily due to increases in foreign currency and interest rate derivatives. Our long-term debt increased 7.6% from ₩41,336 billion as of December 31, 2007 to ₩44,470 billion as of December 31, 2008, primarily due to increases in debentures.

Our total equity decreased by 1.7% from ₩12,470 billion as of December 31, 2007 to ₩12,261 billion as of December 31, 2008. This decrease resulted principally from a decrease in our accumulated other comprehensive income, net of tax, which was attributable mainly to net unrealized holding losses on our investment securities.

Realized and Unrealized Losses on Investment Securities

Gross Realized Losses

In 2009, we recognized other-than-temporary impairment losses on equity securities and debt securities of ₩64 billion and ₩186 billion, respectively. A substantial amount of these losses resulted primarily from impairment losses of ₩114 billion that we recognized in 2009 with respect to our holdings of debt securities issued by Kumho Trust 1st Co., Ltd. and Kumho Industrial, as well as a decline in the fair value of our holdings of equity securities of non-listed foreign issuers.

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* (ASC 320). Any other-than-temporary declines in the fair value of available-for-sale securities results in the recognition of the related loss in earnings.

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

To the extent factors contributing to the impairment losses recognized in 2009 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 2009, the amount of the loss recorded at the sales date was ₩82 billion. These losses related primarily to losses on disposal of equity securities, as well as losses on disposal of fixed maturity securities of issuers whose deteriorating credit fundamentals, coupled with the continued weakness in general economic conditions in Korea and globally, 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, 2009, the amount of gross unrealized losses on available-for-sale securities included in accumulated other comprehensive income in stockholders equity was ₩151 billion. As of that date, we had ₩37 billion of gross unrealized losses on held-to-maturity securities. For a breakdown of these gross unrealized losses by type of security, see Item 4B. Business Overview Capital Markets Activities Securities Investment and Trading.

Substantially all of the fixed maturity securities in our portfolio are rated by external Korean or international rating agencies. Fixed maturity securities are considered investment grade if they are rated BBB−/Baa3 or better. For fixed maturity securities in an unrealized loss position as of December 31, 2009, 15.1% (based on fair value) were investment grade, none were below investment grade and 84.9% were not rated. As of December 31, 2009, unrealized losses from fixed maturity securities that were below investment grade or not rated represented approximately 81.4% of gross unrealized losses on such securities. We had no material unrealized losses on individual fixed maturity securities or equity securities as of December 31, 2009.

As of December 31, 2009, 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	₩ 132	19	₩ 151
More than one year	24	12	36
Total gross unrealized losses	₩ 156	31	₩ 187

Liquidity

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Deposits amounted to ₩145,027 billion as of December 31, 2007, ₩168,332 billion as of December 31, 2008 and ₩177,574 billion as of December 31, 2009, which represented approximately 70.1%, 70.8% and 73.5% 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.

However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. 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. In particular, we may increase our utilization of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating our positions in trading and investment securities and using the proceeds to fund parts of our operations, as necessary.

We also obtain funding through long-term debt, secured borrowings and other borrowed funds to meet our liquidity needs. Long-term debt represented 20.0%, 18.8% and 17.9% of our total funding as of December 31, 2007, 2008 and 2009, respectively. Secured borrowings represented 1.7%, 1.4% and 0.9% of our total funding as of December 31, 2007, 2008 and 2009, respectively. Other borrowed funds, which are borrowings with original maturities of less than one year, represented 6.7%, 7.6% and 5.3% of our total funding as of December 31, 2007, 2008 and 2009, respectively. For further information on our sources of funding, see Item 4B. Business Overview Assets and Liabilities Funding.

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

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

We are a financial holding company, and substantially all of our operations are in our subsidiaries. Accordingly, we rely on distributions from our subsidiaries, direct borrowings and issuances of debt and equity securities to fund our liquidity obligations. We received aggregate dividends from our subsidiaries of ₩617 billion for 2007, ₩248 billion for 2008 and ₩40 billion for 2009. See Item 3D. Risk Factors Risks relating to our financial holding company structure and strategy.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table sets forth our contractual obligations as of December 31, 2009:

	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[1]	₩ 45,708	₩ 15,478	₩ 12,941	₩ 7,047	₩ 10,242
Deposits[2][3]	115,969	107,218	6,363	562	1,826
Capital (finance) lease obligations	102	47	51	4	
Operating lease obligations	635	189	181	175	90
Purchase obligations	53	36	7	7	3

Secured borrowings[(1)]	2,331	1,901	368	62	
Employee severance plan obligations	332	1	5	28	298
Total	₩ 165,130	₩ 124,870	₩ 19,916	₩ 7,885	₩ 12,459

(1) Includes estimated future interest payments, which have been estimated using contractual interest rates and scheduled contractual maturities of the outstanding borrowings as of December 31, 2009. In order to calculate future interest payments on debts with floating rates, we used contractual interest rates as of December 31, 2009.
(2) Comprising certificate of deposits, other time deposits and mutual installment deposits.
(3) Includes estimated future interest payments, which have been estimated using weighted average interest rates paid for 2009 for each deposit product category and their scheduled contractual maturities.

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,		
	2007	**2008**	**2009**
	(in billions of Won)		
Guarantees	₩ 9,631	₩ 19,156	₩ 14,597
Commercial letters of credit	4,287	6,852	6,452
Credit derivatives	615	930	633
Unused lines of credit:			
Commercial	44,664	37,744	29,790
Credit cards(1)	18,377	20,817	21,961
Consumer	6,354	6,916	7,252
Commitments to extend credit:			
Original term to maturity of less than one year			
Original term to maturity of more than one year	4,402	4,624	3,991
Retained interests in special purpose entities	142	95	118
Credit facilities to special purpose entities(2)	5,498	7,160	4,140
Investments in special purpose entities(2)	4,190	900	3,219
Investments in variable interest entities	984	473	560

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

We analyze our off-balance sheet legally binding credit-related commitments for possible losses associated with such commitments. We review the ability of the counterparties of the underlying credit-related commitments to perform their obligations under the commitments and, if we determine that a loss is probable and estimable, we establish allowances for possible losses in a manner similar to allowances that we would establish with respect to a loan granted under the terms of the applicable commitment. These allowances are reflected as other liabilities in our balance sheet. As of December 31, 2009, we had established allowances for possible losses of ₩296 billion with respect to our credit-related commitments.

Capital Adequacy

Our subsidiaries Woori Bank, Kyongnam Bank and Kwangju Bank are subject to the capital adequacy requirements of the Financial Services Commission. The requirements applicable prior to 2008 were formulated based on, and were consistent in all material respects with, the capital adequacy accord reached by the Basel Committee on Banking Supervision, Bank for International Settlements in 1988. The requirements applicable commencing in 2008 were formulated based on, and are consistent in all material respects with, the International Convergence of Capital Measurement and Capital Standards, a Revised Framework, also known as Basel II, first published by the Basel Committee on Banking Supervision, Bank for International Settlements in 2004. These subsidiaries are required to maintain a minimum ratio of total capital (Tier I and Tier II capital, less any capital deductions) to risk-weighted assets, as determined by a specified formula, of 8.0%. The computation is based on their consolidated financial statements prepared in accordance with Korean GAAP. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy and Allowances.

Tier I capital is core capital, which consists of paid-in capital, capital surplus, retained earnings, noncontrolling 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. Prior to the implementation of Basel II in 2008, risk-weighted assets were calculated as the sum of on-balance sheet and off-balance sheet risk-weighted assets, which included credit risk-weighted assets and market risk-weighted assets, multiplied by the applicable credit translation rate provided by the Financial Services Commission s guidelines. Since the implementation of Basel II in 2008, risk-weighted assets are calculated as the sum of credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets, in each case as provided in the Financial Services Commission s guidelines.

The following tables set forth a summary of the capital and capital adequacy ratios of Woori Bank, our principal banking subsidiary, and the capital adequacy ratios of Kyongnam Bank and Kwangju Bank, as of December 31, 2007, 2008 and 2009 based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31,		
	2007	**2008[1]**	**2009[1]**
	(in billions of Won)		
Woori Bank			
Tier I capital			
Paid-in capital	₩ 3,180	₩ 3,530	₩ 3,830
Hybrid	938	1,513	2,423
Capital reserves	465	814	812
Retained earnings	6,775	6,934	7,887
Minority interests in consolidated subsidiaries	4	5	6
Consolidated adjustment credit/debit			
Others	(291)	(1,118)	(747)
Total Tier I capital	11,071	11,678	14,211
Tier II capital			
Revaluation reserves			
Allowance for loan losses[2]	1,774	1,128	1,151
Subordinated debt[3]	3,067	4,635	4,032
Valuation gain on investment securities	752	407	450
Others		(107)	(181)
Total Tier II capital	5,593	6,063	5,452
Investment in non-consolidated equity investees[4]	(69)		

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	As of December 31,		
	2007	2008(1)	2009(1)
	(in billions of Won)		
Total core and supplementary capital	₩ 16,595	₩ 17,741	₩ 19,663
Risk-weighted assets(5)			
Credit risk-weighted assets	₩ 140,112	₩ 140,183	₩ 125,348
Market risk-weighted assets	1,684	3,446	2,535
Operational risk-weighted assets	N/A(6)	8,314	7,788
Total risk-weighted assets	141,796	151,943	135,671
Risk-weighted assets for required capital adjustment(7)			991
Total adjusted risk-weighted assets	₩ 141,796	₩ 151,943	₩ 136,662
Tier I capital ratio	7.81%	7.69%	10.40%
Tier II capital ratio	3.90	3.99	3.99
Capital adequacy ratio	11.70	11.68	14.39

(1) Calculated in accordance with Basel II.

(2) 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.

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

(4) Prior to 2008, equity method investees engaged in banking and financial activities of which Woori Bank owned more than 15% were deducted from Tier II capital. Beginning in 2008, such equity method investees are deducted from Tier I and Tier II capital pursuant to the guidelines of the Financial Services Commission.

(5) Prior to the implementation of Basel II in 2008, risk-weighted assets were classified as on-balance sheet and off-balance sheet risk-weighted assets, which included credit risk-weighted assets and market risk-weighted assets. Beginning in 2008, under Basel II, risk-weighted assets are classified as credit risk-weighted assets, market risk-weighted assets and operational risk-weighted assets.

(6) N/A = Not applicable.

(7) Represents adjustments to total risk-weighted assets pursuant to Financial Supervisory Service guidelines that require banks that apply an internal ratings-based approach or advanced measurement approach in calculating capital requirements to adjust their total risk-weighted assets when calculating capital ratios in certain circumstances.

	Kyongnam Bank	Kwangju Bank
As of December 31, 2007		
Tier I capital ratio	7.35%	6.90%
Tier II capital ratio	3.49	4.01
Capital adequacy ratio	10.80	10.91

	Kyongnam Bank	Kwangju Bank
As of December 31, 2008(1)		

Tier I capital ratio	7.84%	7.58%
Tier II capital ratio	3.94	4.53
Capital adequacy ratio	11.78	12.12

	Kyongnam Bank	**Kwangju Bank**
As of December 31, 2009[(1)]		
Tier I capital ratio	9.68%	8.50%
Tier II capital ratio	4.02	5.33
Capital adequacy ratio	13.70	13.82

(1) Calculated in accordance with Basel II.

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

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

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

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank 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 currently use a standardized approach. In October 2008, the Financial Supervisory Service approved Woori Bank s internal ratings-based approach for credit risk. For regulatory reporting purposes, from September 30, 2008, Woori Bank has implemented its internal ratings-based approach for credit risk, beginning with its credit risk with respect to retail, small- and medium-size enterprises and large corporate loans and asset-backed securities portfolios, and plans to further implement its internal ratings-based approach to its specialized lending portfolio upon approval by the Financial Supervisory Service. A standardized approach will be used in measuring credit risk for those classes of exposure for which Woori Bank s internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the Korean government, public institutions and other banks) for which the internal ratings-based approach will not be applied. Woori Bank plans to implement an advanced internal ratings-based approach for credit risk in the near future. Woori Bank also implemented a standardized approach for operational risk beginning on January 1, 2008, and implemented an advanced measurement approach for operational risk in June 2009. For internal measurement purposes, Woori Bank began to implement an advanced internal ratings-based approach for credit risk commencing in 2005 and an advanced measurement approach for operational risk commencing in 2008. While we believe that Woori Bank s implementation of an internal ratings-based approach in 2008 has increased its capital adequacy ratio and led to a decrease in its credit risk-related capital requirements as compared to those under its previous approach under the initial Basel Capital Accord of 1988, there can be no assurance that such internal ratings-based approach under Basel II will not require an increase in Woori Bank s credit risk capital requirements in the future, which may require it to either improve its asset quality or raise additional capital.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. After further impact assessment, the Basel Committee on Banking Supervision is expected to implement the new set of measures in 2012. The timing and scope of implementation of such measures in Korea remain uncertain. The implementation of such measures in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

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

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The following table sets forth a summary of our consolidated capital adequacy ratio as of December 31, 2009, based on applicable Korean GAAP and regulatory reporting standards:

	As of December 31, 2009 (in billions of Won)
Risk-weighted assets	₩ 200,955
Equity capital	24,824
Consolidated capital adequacy ratio	12.4%

Recent Accounting Pronouncements

FASB Accounting Standards Codification (ASC 105)

In July 2009, the FASB issued the FASB Accounting Standards Codification (the Codification or ASC), which became the single source of authoritative U.S. GAAP. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (ASU), which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification. We adopted the Codification, as required, for annual periods ending after September 15, 2009. As a result, references to accounting literature contained in our financial disclosures have been updated to reflect the new ASC structure.

Fair Value Measurements and Disclosures (ASC 820)

In September 2006, the FASB issued enhanced guidance for using fair value to measure assets and liabilities by establishing a common definition of fair value, providing a framework for measuring fair value under U.S. GAAP, and expanding the disclosure requirements about fair value measurements. In February 2008, the FASB deferred the adoption of such guidance for one year for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. We adopted the fair value guidance for non-financial assets and non-financial liabilities on January 1, 2009. Our adoption of this guidance did not have a material impact on our consolidated financial statements.

Business Combinations (ASC 805)

In December 2007, the FASB issued an amended accounting standard related to business combinations, which applies to all transactions or other events in which an entity obtains control of one or more businesses, including those sometimes referred to as true mergers or mergers of equals and combinations achieved without the transfer of consideration. The standard requires, with limited exceptions, the acquirer in a business combination to recognize 100% of the assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition-date fair value. In addition, in partial acquisitions, when control is obtained, the standard requires that the acquiring company measure and record all of the target s assets and liabilities, including goodwill, at fair value as if the entire target company had been acquired. We adopted this standard on January 1, 2009. Our adoption of this standard did not have an effect on our consolidated financial condition, results of operations or cash flows, but may have an effect on our accounting for future business combinations.

Noncontrolling Interests in Consolidated Financial Statements (ASC 810)

In December 2007, the FASB issued an amended accounting standard related to noncontrolling interests in consolidated financial statements, which applies to all entities that prepare consolidated financial statements, except for not-for-profit organizations, but affects only those entities that have an outstanding noncontrolling interest in one or more subsidiaries. The standard requires ownership interests in consolidated subsidiaries held by parties other than the parent to be accounted for and presented as equity, rather than as a liability or a mezzanine line item, and changes in the parent s ownership interest while the parent retains its controlling financial interest in its subsidiaries to be accounted for as equity transactions. We adopted this standard on January 1, 2009. As a result, ₩341 billion of noncontrolling interests as of December 31, 2008 were reclassified from a mezzanine line item to equity.

Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (ASC 860)

In February 2008, the FASB issued a guidance that applies to repurchase agreements relating to previously transferred financial assets between the same counterparties that are entered into contemporaneously with, or in contemplation of, the initial transfer. We adopted this guidance on January 1, 2009. Our adoption of this guidance did not have a material effect on our consolidated financial condition, results of operations or cash flows.

Disclosures about Derivative Instruments and Hedging Activities (ASC 815)

In March 2008, the FASB amended the disclosure requirements for derivative instruments and hedging activities. These amendments became effective for us on January 1, 2009. Disclosure required by this guidance is provided in Note 33 of the notes to our consolidated financial statements.

Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (ASC 820)

In April 2009, the FASB amended the fair value measurements accounting guidance to provide additional guidance for estimating fair value when the volume and level of activity for an asset or liability have significantly decreased. The amended accounting guidance also included guidance on identifying circumstances that indicate a transaction is not orderly. We adopted this amended accounting guidance on January 1, 2009. Our adoption of this guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

Recognition and Presentation of Other-Than-Temporary Impairments (ASC 320)

In April 2009, the FASB amended the other-than-temporary impairment guidance in U.S. GAAP for debt securities and the presentation and disclosure requirements of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. We adopted this amended standard on January 1, 2009. As a result of our adoption of this amended standard, we recognized a ₩5 billion increase, net of tax, in retained earnings and a corresponding decrease in accumulated other comprehensive loss in our consolidated balance sheet as of January 1, 2009.

Subsequent Event (ASC 855)

In May 2009, the FASB issued guidance that established general standards for accounting and disclosure of events that occur after the balance sheet date and before the financial statements are issued or are available to be issued. This guidance was effective on a prospective basis for annual financial periods ending after June 15, 2009. Our adoption of this guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows. In February 2010, however, the FASB amended the disclosure guidance for subsequent events. The amendments (i) require an SEC filer to evaluate subsequent events up to the date the financial statements are filed with the SEC, (ii) add the definitions of an SEC filer and revised financial statements, (iii) no longer require that an SEC filer disclose the date up to which subsequent events have been reviewed, and (iv) remove the definition of a public entity. Our adoption of these amendments upon their issuance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

Consolidation of Variable Interest Entities (ASC 810)

In June 2009, the FASB amended the accounting and disclosure guidance for the consolidation of variable interest entities. The amended accounting guidance requires the reconsideration of previous conclusions related to the consolidation of variable interest entities, including whether an entity is a variable interest entity and whether we are the variable interest entity s primary beneficiary. The amended accounting guidance carries forward the scope of the previous accounting guidance for the consolidation of variable interest entities with the addition of entities previously considered as qualifying special purpose entities. The amended accounting and disclosure guidance is effective as of the beginning of the first fiscal year that begins after November 15, 2009, or January 1, 2010 for us. Our reconsideration of previous conclusions related to the consolidation of variable interest entities did not result in the consolidation of additional entities as of January 1, 2010. Since January 1, 2010, we have been assessing, on an ongoing basis, whether we are a variable interest entity s primary beneficiary and considering changes in facts and circumstances related to the variable interest entities.

Fair Value Measurements and Disclosures Measuring Liabilities at Fair Value (ASC 820)

In August 2009, the FASB amended the fair value measurements accounting guidance for measuring the fair value of liabilities. The amended accounting guidance clarifies that the quoted price for an identical liability, when traded as an asset in an active market, is also a Level 1 measurement for that liability when no adjustment to the quoted price is required. In the absence of a Level 1 measurement, the amended accounting guidance clarifies that we must use a valuation technique that uses a quoted price or a valuation technique based on the amount we would pay to transfer the identical liability or receive to enter into an identical liability. The amended accounting guidance became effective in the fourth quarter 2009 with adoption applied prospectively. Our adoption of this guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

Investments in Certain Entities that Calculate Net Asset Value per Share (ASU 2009-12)

In September 2009, the FASB issued ASU 2009-12, Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent) (ASU 2009-12), which updated Fair Value Measurements and Disclosures (ASC 820). ASU 2009-12 is applicable to an investment that has the attributes defined by Financial Services Investment Companies (ASC 946), but does not have a readily determinable fair value. For those investments that are within its scope, this guidance permits an entity, as a practical expedient, to measure the fair value of an investment using net asset value per share of the investment. This guidance is effective for the first interim or annual reporting period ending after December 15, 2009, or December 31, 2009 for us. Our adoption of this guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

Fair Value Measurements and Disclosures Improving Disclosures about Fair Value Measurements (ASC 820)

In January 2010, the FASB amended the disclosure guidance related to fair value measurements. The amended disclosure guidance requires new fair value measurement disclosures and clarifies existing fair value measurement disclosure requirements. The amended disclosure guidance related to disclosures about purchases, sales, issuances and settlements of Level 3 instruments will be effective for fiscal years beginning after December 15, 2010, or January 1, 2011 for us. The remainder of the amended disclosure guidance is effective for annual reporting periods beginning after December 31, 2009, or January 1, 2010 for us. Our management does not expect the amended disclosure guidance to have a material impact on our fair value-related disclosures.

Consolidation Accounting and Reporting for Decreases in Ownership of a Subsidiary a Scope Clarification (ASC 810)

In January 2010, the FASB amended the accounting and disclosure guidance related to entities that experience a decrease in ownership in a subsidiary that is a business or non-profit activity and entities that exchange a group of assets that constitute a business or non-profit activity for an equity interest in another entity. The amended accounting and disclosure guidance clarifies, but does not necessarily change, the scope of current consolidation guidance. We adopted this guidance on December 31, 2009. Our adoption of this

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guidance did not have a material impact on our consolidated financial condition, results of operations or cash flows.

ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives (ASC 815)

In March 2010, the FASB issued ASU 2010-11, Scope Exception Related to Embedded Credit Derivatives (ASC 815). This ASU clarifies that certain embedded derivatives, such as those contained in certain securitizations, collateralized debt obligations and structured notes, should be considered embedded credit derivatives subject to potential bifurcation and separated fair value accounting. This ASU allows any beneficial interest issued by a securitization vehicle to be accounted for under the fair value option at transition. This new accounting guidance will become effective on July 1, 2010. Our management does not expect this new accounting guidance to have a material impact on our consolidated financial condition, results of operations or cash flows.

ASU 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (ASC 310)

In April 2010, the FASB issued ASU 2010-18, Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset (ASC 310). This ASU improves comparability by eliminating diversity in practice about the treatment of modifications of loans accounted for within pools under Subtopic 310-30 of the Codification. Furthermore, this ASU clarifies guidance about maintaining the integrity of a pool as the unit of accounting for acquired loans with credit deterioration. This new accounting guidance is effective for modifications of loans accounted for within pools under the subtopic 310-30 of the Codification occurring in the first interim or annual period ending on or after July 15, 2010, or December 31, 2011 for us. Our management does not expect this new accounting guidance to have a material impact on our consolidated financial condition, results of operations 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, consolidated financial statements include the accounts of fully- or majority-owned subsidiaries and substantially controlled affiliates that have assets in excess of ₩7 billion. Substantial control is deemed to exist when the investor is the largest shareholder and owns more than 30% of the investee s voting shares.

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

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Consolidated income statement data under Korean GAAP

	As of December 31,			
	2007	2008	2009	2009(1)
	(in billions of Won, except per share data)			(in millions of US$, except per share data)
Interest and dividend income(2)	₩ 13,116	₩ 16,937	₩ 14,554	US$ 12,507
Interest expense	7,920	10,742	8,663	7,444
Net interest income	5,196	6,195	5,891	5,063
Provision for loan losses	647	1,628	2,177	1,871
Net interest income after provision for loan losses	4,549	4,567	3,714	3,192
Commission income	1,775	1,778	1,665	1,431
Other non-interest income	11,759	68,186	37,843	32,520
Non-interest expense	15,167	73,417	41,838	35,953
Operating income	2,916	1,114	1,384	1,190
Non-operating income	137	203	288	247
Non-operating expense	129	127	191	164
Income before income tax expense	2,924	1,190	1,481	1,273
Income tax expense (benefit)	800	603	403	346
Income (loss) from continuing operations	2,124	587	1,078	927
Total income (loss) from discontinued operations			38	32
Net income (loss)	₩ 2,124	₩ 587	₩ 1,116	US$ 959
Controlling Interest	1,939	454	1,026	882
Noncontrolling interests	(185)	133	90	77
	₩ 2,124	₩ 587	₩ 1,116	US$ 959
Per common share data:				
Earnings per share-basic	₩ 2,406	₩ 564	₩ 1,273	US$ 1,094
Earnings per share-diluted	2,406	564	1,273	1,094
Cash dividends per share	250		100	86
Stock dividends per share				

(1) Won amounts are expressed in U.S. dollars at the rate of ₩1,163.7 to US$1.00, the noon buying rate in effect on December 31, 2009 as quoted by the Federal Reserve Bank of New York in the United States.

(2)

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

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Consolidated balance sheet data under Korean GAAP

	As of December 31,						
	2007		2008		2009		2009(1)
		(in billions of Won)					(in millions of US$)
Cash and due from banks	₩	14,985	₩ 19,968	₩	21,134	US$	18,161
Trading securities		16,228	16,502		18,573		15,960
Investment securities		32,000	30,213		31,703		27,244
Loans		170,030	200,585		200,609		172,389
Less: allowance for loan losses and present value discounts		(2,395)	(3,546)		(3,726)		(3,202)
Fixed assets		2,639	2,797		2,820		2,423
Other assets		16,165	24,475		13,791		11,851
Total assets	₩	249,652	₩ 290,994	₩	284,904	US$	244,826
Deposits	₩	146,583	₩ 170,225	₩	178,661	US$	153,528
Borrowings		30,608	34,850		34,976		30,056
Debentures, net of discounts		35,432	39,868		36,689		31,528
Other liabilities		22,012	31,743		18,591		15,976
Total liabilities		234,635	276,686		268,917		231,088
Total Equity		15,017	14,308		15,987		13,738
Total liabilities and equity	₩	249,652	₩ 290,994	₩	284,904	US$	244,826

(1) Won amounts are expressed in U.S. dollars at the rate of ₩1,163.7 to US$1.00, the noon buying rate in effect on December 31, 2009 as quoted by the Federal Reserve Bank of New York in the United States.

Ratios under Korean GAAP

	Year ended December 31,		
	2007	2008	2009
		(Percentages)	
Woori Finance Holdings:			
Net income as a percentage of:			
Average total assets	0.85%	0.17%	0.35%
Average stockholders equity	15.39	3.47	7.93
Dividend payout ratio(1)	10.37		7.90
Net interest spread(2)	3.03	2.78	2.53
Net interest margin(3)	2.43	2.27	1.99
Expense-to-revenue ratio(4)	45.16	52.68	48.19

Average stockholders equity as a percentage of average total assets	5.51	4.76	4.36
Woori Bank:			
Net income as a percentage of:			
Average total assets	1.00	0.11	0.41
Average stockholders equity	14.79	1.90	7.32
Dividend payout ratio(1)	11.27		24.13
Net interest spread(2)	2.99	2.71	2.42
Net interest margin(3)	2.45	2.24	1.88
Expense-to-revenue ratio(4)	42.46	43.42	43.71
Average stockholders equity as a percentage of average total assets	6.76	5.81	5.59

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

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

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

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

Capital, liquidity and leverage ratios under Korean GAAP

		December 31,	
	2007	2008	2009
		(Percentages)	
Capital ratios:			
Consolidated capital adequacy ratio of Woori Finance Holdings[1]	11.53%	10.86%	12.35%
Total capital adequacy ratio of Woori Bank[2]	11.70	11.68	14.39
Tier I[2]	7.81	7.69	10.40
Tier II[2]	3.90	3.99	3.99
Liquidity ratios:			
Won liquidity ratio of Woori Finance Holdings[3]	269.30	650.66	263.29
Won liquidity ratio of Woori Bank[4]	111.63	110.02	121.89
Foreign currency liquidity ratio of Woori Bank[5]	104.65	97.54	105.23
Leverage ratio:			
Ratio of acquisition price to net assets of Woori Finance Holdings[6]	39.36	50.24	47.48

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

(2) Woori Bank accounted for 79.4% of our total assets as of December 31, 2009. The capital adequacy ratio of Woori Bank is computed in accordance with the guidelines issued by the Financial Services Commission, and the capital adequacy ratios as of December 31, 2008 and 2009 have been computed in accordance with Basel II. Under the guidelines of the Financial Services Commission, Woori Bank is required to maintain a minimum capital adequacy ratio of 8%. This computation is based on Woori Bank s consolidated financial statements prepared in accordance with Korean GAAP. See Financial Condition Capital Adequacy.

(3) For 2009, defined as the ratio of Won currency assets due within one month, including marketable securities, to Won liabilities due within one month. For 2007 and 2008, 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) For 2008 and 2009, defined as the ratio of Won currency assets due within one month, including marketable securities, to Won liabilities due within one month. For 2007, defined as the ratio of Won currency assets due within three months, including marketable securities, to Won liabilities due within three months. This ratio should not be less than 100% on a non-consolidated basis, under the Regulation on Supervision of Banking Business.

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

basis, under the Regulation on Supervision of Banking Business.

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

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Asset quality data under Korean GAAP

	December 31,		
	2007	2008	2009
	(in billions of Won)		
Woori Finance Holdings:			
Non-performing loans[(1)]	₩ 1,244	₩ 2,601	₩ 3,436
Allowance for loan losses	2,412	3,630	3,824
Non-performing loans as a percentage of total loans	0.71%	1.24%	1.69%
Non-performing loans as a percentage of total assets	0.50	0.89	1.21
Allowance for loan losses as a percentage of non-performing loans	193.96	139.55	111.30
Allowance for loan losses as a percentage of total loans	1.38	1.74	1.88
Woori Bank:			
Non-performing loans[(1)]	₩ 920	₩ 2,100	₩ 2,726
Non-performing loans as a percentage of total loans	0.63%	1.19%	1.60%
Non-performing loans as a percentage of total assets	0.42	0.85	1.15
Precautionary loans as a percentage of total loans	0.74	2.02	2.83
Precautionary and below loans as a percentage of total loans	1.37	3.22	4.44
Precautionary and below loans as a percentage of total assets	0.92	2.30	3.17
Allowance for loan losses as a percentage of non-performing loans	211.38	144.07	113.61
Allowance for loan losses as a percentage of precautionary and below loans	96.75	53.48	41.08
Allowance for loan losses as a percentage of total loans	1.33	1.72	1.82

(1) Non-performing loans are defined as those loans that are classified as substandard or below based on the Financial Services Commission s asset classification criteria.

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 total equity of the consolidated statements with Korean GAAP:

	As of or for the year ended December 31, 2009 (in billions of Won)
Korean GAAP net income	₩ 1,116
1. Loans	(415)
2. Securities	364
3. Derivatives	(190)
4. Deferred loan costs	1
5. Fixed assets	12

6. Intangible assets		
7. Tax effect of deficit equity reduction		
8. Noncontrolling interest		
9. Reversal effect of Daewoo Construction sale		210
10. Goodwill impairment		20
11. Others	₩	11
Total of adjustments		13
Tax effect of adjustments	₩	(17)

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		As of or for the year ended December 31, 2009 (in billions of Won)
U.S. GAAP net income	₩	1,112
Korean GAAP total equity	₩	15,987
1. Loans		340
2. Securities		(1,383)
3. Derivatives		(6)
4. Deferred loan costs		87
5. Fixed assets		(122)
6. Intangible assets		1
7. Tax effect of deficit equity reduction		
8. Noncontrolling interest		(1,970)
9. Reversal effect of Daewoo Engineering & Construction Co., Ltd. sale		(99)
10. Goodwill impairment		(32)
11. Others		113
Total of adjustments		(3,071)
Tax effect of adjustments		306
U.S. GAAP total equity	₩	13,222

The following is a summary of the significant adjustments made to consolidated net income and total 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 Services Commission, which require that the minimum allowance be established based on the classification of the loan. We have generally used these guidelines in establishing the minimum reserves and have additionally considered loan loss provisioning guidelines announced by the Financial Services Commission in November 2004. These guidelines include a 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. We consider other-than-temporary impairment for a debt security to have occurred if one of the following conditions is met: (i) we intend to sell the impaired debt security, (ii) it is more-likely-than-not that we will be required to sell the impaired debt security before recovery of the security s amortized cost basis or (iii) we do not expect to recover the entire amortized cost basis of the security. Our evaluation of whether we intend to sell an impaired debt security involves consideration of whether our management has decided to sell the security as of the relevant balance sheet date. Our evaluation of whether it is more-likely-than-not that we will be required to sell an impaired debt security before recovery of the security s amortized cost basis involves consideration of the likelihood of such sale in light of the

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relevant legal, regulatory or operational requirements. For an impaired debt security that we do not intend to sell and with respect to which it is not more-likely-than-not that we will be required to sell before recovery of such security s amortized cost basis, we consider both qualitative and quantitative valuation factors to evaluate whether we expect to recover the entire amortized cost basis of such security and the amount of the other-than-temporary impairment is separated into an amount representing the credit loss, which is recognized in earnings, and an amount related to all other factors, which is recognized in other comprehensive income. For marketable equity securities, other-than-temporary impairment evaluations focus on whether evidence exists that supports recovery of the unrealized loss within a timeframe consistent with temporary impairment. Factors considered in this evaluation include the length of time and extent to which fair value is less than cost, the status of the security, our intent and ability to hold the security for a period of time sufficient to allow for any recovery in market value, and the conditions of the Korean and overseas economies. If we have decided to sell a specifically identified available-for-sale equity security whose fair value is less than its cost basis and we do 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. 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 total 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. 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 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.

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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.

These adjustments reflect the 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 deposits 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. Certain subsidiaries (such as Woori Investment & Securities) that are accounted for as equity method investees under U.S. GAAP are accounted for as consolidated subsidiaries under Korean GAAP.

9. In 2006, we disposed of shares of Daewoo Engineering & Construction common stock, which we held as investment securities, following its conclusion of a workout program. Subsequently, we participated as a member of a consortium to purchase shares of Daewoo Engineering & Construction common stock. Under Korean GAAP, we recognized the gain from the sale of such investment securities. The sale was not recognized under U.S. GAAP.

10. Under Korean GAAP, goodwill is amortized using the straight-line method over its useful life, not to exceed 20 years. Under U.S. GAAP, goodwill is not amortized but tested for impairment on an annual basis.

11. 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 one standing director and seven outside directors. Standing directors are directors who are full-time executive officers of Woori Finance Holdings, while outside 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 outside directors. Each standing director may be elected for a term of office not exceeding three years, as determined at the general meeting of shareholders, and may be re-elected. Each outside director may be elected for a term of office not exceeding two years, and may be re-elected for successive one-year terms, provided that the outside director may not serve in such office for more than five consecutive years. In addition, with respect to both standing and outside directors, such term of office is extended until or reduced to, as the case 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 Director

Our standing director is as follows:

Name	Age	Position	Director Since
Pal Seung Lee	66	Chairman and Chief Executive Officer	June 27, 2008

Our standing director is not involved in any significant business activities outside Woori Finance Holdings and our subsidiaries.

Pal Seung Lee was elected executive director in June 2008. Prior to that, he was the representative director of the Seoul Philharmonic Orchestra, chief executive officer of Woori Investment & Securities and executive managing director of Hanil Bank. Mr. Lee holds a Bachelor of Law and a Master of Business Administration from Korea University.

Outside Directors

Our outside directors are selected based on their experience and knowledge in diverse areas, which include law, finance, economics, management and accounting. We currently have seven outside directors. All were nominated by the Outside Director Candidate Recommendation Committee and approved by our shareholders.

Our outside directors are as follows:

Name	Age	Position	Director Since	Year Term Ends(1)
Hi-Bock Kang	64	Outside Director	March 27, 2009	2011
Young-Ho Lee	61	Outside Director	March 27, 2009	2011
Hak-Jin Kim	54	Outside Director	March 27, 2009	2011
Doo-Hee Lee	53	Outside Director	March 27, 2009	2011
Hun Lee	49	Outside Director	March 27, 2009	2011
Min-Joon Bang	60	Outside Director	March 28, 2008	2011
Hi-Taek Shin	58	Outside Director	March 28, 2008	2011

(1) The date on which each term will end will be the date of the general stockholders meeting in the relevant year.

Hi-Bock Kang was elected as an outside director in March 2009. He is currently the executive director of the Market Economy Research Institute, and was formerly the chief executive officer of Korea Minting and Security Printing Corporation. He holds a Bachelor and Masters degree in Public Administration from Seoul National University.

Young-Ho Lee was elected an outside director in March 2009. He is currently an advisor at Kim & Chang, and was formerly the chairman of the Market Oversight Commission of the Korea Exchange. He holds a Bachelor of Law from Korea University.

Hak-Jin Kim was elected an outside director in March 2009. He is currently the director general of the Department of Insurance Policy at the KDIC. He holds a Bachelor of Economics from Chung-Ang University.

Doo-Hee Lee was elected an outside director in March 2009. He is currently a professor at the College of Business Administration, Korea University. He holds a B.B.A from Korea University and a Masters and Ph.D. in Business Administration from Michigan State University.

Hun Lee was elected an outside director in March 2009. He is currently the co-head of The Lawyers for Citizens, and was formerly a lawyer at Barun Law. He holds a Bachelor of Law from Chung-Ang University.

Min-Joon Bang was elected an outside director in March 2008. He was formerly the Arbitration Commissioner of the Press Arbitration Commission and the head of the editorial desk at Korea Times. He holds a Bachelor s degree in Korean Language and Literature from Seoul National University.

Hi-Taek Shin was elected an outside director in March 2008. He is currently a professor at the College of Law at Seoul National University. He was formerly associated with Kim & Chang. He holds a Bachelor s and a Master s degree in Law from Seoul National University and a J.S.D. from Yale Law School.

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.

Executive Officers

In addition to the standing director who is also our executive officer, we currently have the following five executive officers.

Name	Age	Position
Sang-Koo Youn	54	Senior Managing Director
Jung-Han Kim	53	Senior Managing Director
In Chul Park	56	Managing Director
Sung-Jae Park	55	Managing Director
Seung-Kyu Kim	53	Managing Director

Sang-Koo Youn serves as a senior managing director in charge of research, human resources, management support, strategic planning and public relations. Prior to that, he was an executive vice president of Woori Bank. He holds a Bachelor of Law from Yonsei University.

Jung-Han Kim serves as a senior managing director in charge of risk management. Prior to that, he was an executive vice president of Woori Bank. He holds a Bachelor of Law from Korea University and a Master of International Economics from the University of Essex.

In Chul Park serves as a managing director in charge of investor relations, financial planning and financial accounting. Prior to that, he was head of the public relations department at Woori Bank. He holds a Bachelor of Business Administration from Konkuk University and a Master of Business Administration from Yonsei University.

Sung-Jae Park serves as a managing director in charge of compliance. Prior to that, he was the head of a regional operations department of Woori Bank. He holds a Bachelor of Business Administration from Korea University.

Seung-Kyu Kim serves as a managing director in charge of strategic planning, business innovation and audit and management inspection. Prior to that, he was the head of a regional operations department of Woori Bank. He holds a Bachelor of Business Administration from Sungkyunkwan University.

None of the executive officers is involved in any significant business activities outside Woori Finance Holdings and our subsidiaries.

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Item 6B. *Compensation*

The aggregate remuneration and benefits-in-kind we paid in 2009 to our chairman and chief executive officer, our outside directors and our other executive officers was ₩2,130 million. In 2009, we recorded additional provisions of ₩125 million 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.

In 2009, we did not grant any stock options and, accordingly, did not recognize any compensation expense for stock options granted under our stock option plan. As of the date of this annual report, we do not have any stock options outstanding.

Item 6C. *Board Practices*

See Item 6A. Directors and Senior Management Board of Directors and Item 6B. Compensation 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 nine management committees that serve under the board:

- the Management Committee;
- the Business Development and Compensation Committee;
- the Risk Management Committee;
- the Audit Committee;
- the Standing Directors Committee;
- the Ethics Committee;
- the Outside Directors Recommendation Committee;
- the MOU Evaluation Committee; and
- the Audit Committee Member Candidate Recommendation 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.

Management Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Hi Bock Kang, Young Ho Lee, Min Joon Bang and Hi Taek Shin. The chairman is Pal Seung Lee. 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.

Business Development and Compensation Committee

This committee consists of three outside directors: Young-Ho Lee, Doo-Hee Lee and Hun Lee. The chairman is Young Ho 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
- fixing executive compensation, including incentives and bonuses.

This committee holds regular meetings every six months.

Risk Management Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Hi Bock Kang, Young Ho Lee, Min Joon Bang and Hun Lee. The chairman is Pal Seung Lee. 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 setting our subsidiaries risk limits;
- 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 as well as the Group Risk Management Department, which in turn receives reports from the subsidiary level risk management committees and units. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. The committee holds regular meetings every three months.

Audit Committee

This committee consists of four outside directors: Young Ho Lee, Hak Jin Kim, Hi Taek Shin and Doo Hee Lee. The chairman is Hi Taek Shin. 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 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.

Standing Directors Committee

This committee currently consists of our standing director, Pal Seung Lee, who is the chairman. 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 Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Min Joon Bang, Hak Jin Kim, Doo Hee Lee and Hi Taek Shin. The chairman is Min Joon Bang. 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.

Outside Directors Recommendation Committee

This committee consists of one standing director and four outside directors: Pal Seung Lee, Hi Bock Kang, Hak Jin Kim, Doo Hee Lee and Hun Lee. The chairman is Hi Bock Kang. It is responsible for the following:

- searching for potential outside director candidates; and
- reviewing and nominating outside director candidates.

This committee holds meetings when an outside director needs to be appointed.

MOU Evaluation Committee

This committee consists of the entire board of directors: Pal Seung Lee, Hi Bock Kang, Young Ho Lee, Hak Jin Kim, Doo Hee Lee, Hun Lee, Min Joon Bang and Hi Taek Shin. The chairman is Pal Seung Lee. 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.

Audit Committee Member Candidate Recommendation Committee

This committee, which was first formed in January 2008, consists of seven outside directors: Hi Bock Kang, Young Ho Lee, Hak Jin Kim, Doo Hee Lee, Hun Lee, Min Joon Bang and Hi Taek Shin. The chairman is Hi Bock Kang. It is responsible for the following:

This committee holds meetings when an audit committee member needs to be appointed.

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Item 6D. *Employees*

As of December 31, 2009, we had a total of 63 full-time employees, including six 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,		
	2007	2008	2009
Full-time employees	19,575	20,283	21,108
Contractual employees	4,582	4,908	4,133
Total	24,157	25,191	25,241

At the holding company level, our employees do not currently have a union and none of such employees are members of an outside labor union. At each of our subsidiaries, our employees have a labor union, and approximately 63.1% of the employees of our subsidiaries are members of the Korea Financial Industry Union or other labor unions. 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. We have placed a high priority on our relationship with our employees and on maintaining an atmosphere of trust and cooperation between our labor and management.

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 two years to age 60 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 two years. 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 as well as certain departments (such as the Investment Finance department).

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 our compensation package for our subsidiaries is 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 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, 2009, accrued severance benefits were ₩315 billion, which represented 100% of the amount required under Financial Services Commission guidelines. As of December 31, 2009, approximately 66.3% 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 2007, 2008 and 2009 we paid ₩17 billion, ₩15 billion and ₩14 billion, respectively, for the training of our employees in specialist areas by local and foreign training institutes.

Item 6E. *Share Ownership*

Common Stock

As of May 31, 2010, the persons who are currently our directors or executive officers, as a group, held an aggregate of 31,753 shares of our common stock. None of these persons individually held more than 1% of our outstanding common stock as of such date. The following table presents information regarding our directors and executive officers who beneficially owned our shares as of May 31, 2010.

Name of Executive Officer or Director	Number of Shares of Common Stock
Pal Seung Lee	30,000
Sang-Koo Youn	400
In Chul Park	1,000
Sung-Jae Park	353
Total	31,753

Stock Options

In December 2002, we granted stock options to directors and executive officers of us and certain of our subsidiaries. The exercise period for all such stock options expired on December 4, 2008 and was not extended. As of December 31, 2009, our directors and executive officers did not hold any stock options. As of the date of this annual report, we do not have any stock options outstanding.

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 April 30, 2010 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	Percentage of Total Shares on a Fully Diluted Basis
KDIC	459,198,609	56.97	56.97
Mirae Asset Global Investments	49,967,187	6.2	6.2

As of May 31, 2010, our chairman and chief executive officer owned 30,000 shares of our common stock, our executive officers, excluding our chairman and chief executive officer, collectively owned 1,753 shares of our common stock, and our outside directors did not own any 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 April 30, 2010.

Item 7B. *Related Party Transactions*

We regularly engage in transactions with entities affiliated with the government, which as of May 31, 2010 owned 56.97% 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. See Item 4A. History and Development of the Company History Relationship with the Korean Government. In addition, as of December 31, 2009, we owned ₩401 billion of debentures issued by the KDIC, representing 0.9% of our investment securities.

In 2008, we entered into three loan agreements with Woori Financial, our subsidiary, to lend an aggregate of ₩170 billion. As of May 31, 2010, ₩100 billion of such loans remained outstanding to Woori Financial.

As of December 31, 2007, we had loans outstanding to our executive officers and directors in the aggregate amount of ₩69 million. As of December 31, 2008, we had loans outstanding to our executive officers and directors in the aggregate amount of ₩29 million. As of December 31, 2009, we had loans outstanding to our executive officers and directors in the aggregate amount of ₩97 million. For additional information regarding our transactions with related parties, see Note 36 of the notes to our consolidated financial statements.

All of these loans 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.

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-97.

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 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 ₩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.

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In January 2007, the appellate court dismissed the appeal. Ilsung Pharmaceuticals appealed the appellate court s decision to the Supreme Court of Korea in February 2007, which dismissed the appeal in April 2010.

In connection with certain lawsuits against Hanvit Bank (the predecessor to Woori Bank) and other defendants filed in the United States by various investors regarding alleged fraud by Lernout & Hauspie Speech Products, which ended in 2006 with the dismissal of all of the plaintiffs claims, 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 Korean subsidiary had contributed to Lernout & Hauspie s improper accounting. In 2006, the U.S. District Court for the Southern District of New York dismissed the complaint. The plaintiff subsequently filed an amended complaint with the court, which was dismissed by the court in February 2010.

Kyobo Life Insurance had brought a lawsuit against Woori Bank in July 2000, claiming damages of ₩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 subsequently appealed the appellate court s decision to the Supreme Court of Korea. The Supreme Court of Korea s ruling in October 2006 found contributory negligence on the part of Kyobo Life Insurance while recognizing that the entrusted funds should not have been invested in unsecured instruments, and the case was remanded to the appellate court. In August 2009, the appellate court ordered Kyobo Life Insurance to pay back ₩11 billion of the ₩12 billion in monetary damages previously paid to it by Woori Bank following the appellate court s 2004 decision.

Commencing in 2005, Woori Bank marketed and sold investment fund products known as the Woori Power Income Funds, created and managed by Woori Asset Management, to customers in Korea. The funds have experienced significant declines in value, principally as a result of investments made in securities and derivative instruments of troubled financial institutions in the U.S. and elsewhere. In November 2008, in response to complaints filed by customers who suffered losses as a result of their investment in these products, the Financial Supervisory Service ruled that Woori Bank should compensate such customers for 30% to 50% of the investment losses they suffered due to its failure to adequately disclose the risks associated with an investment in the products. In accordance with such ruling, Woori Bank has made compensation payments to customers in the aggregate amount of approximately ₩18 billion through June 15, 2010. Certain customers who invested in these products through Woori Bank have opted to file lawsuits against Woori Bank based on its alleged failure to adequately disclose such risks, in order to obtain higher levels of compensation. As of June 15, 2010, 16 such lawsuits were pending and the aggregate amount claimed against Woori Bank in such lawsuits was approximately ₩9 billion. In 14 of such lawsuits, the trial courts ruled that Woori Bank was liable for damages equal to approximately 20% to 30% of the losses suffered by the plaintiffs. These decisions were appealed to the appellate court by both the plaintiffs and Woori Bank, where they are currently pending. Additional lawsuits may be filed against Woori Bank with respect to its sales of such products, and the final outcome of such litigation remains uncertain.

In 2008, certain of Woori Bank s customers filed lawsuits against it in connection with its sales of foreign currency derivatives products known as KIKO (which stands for knock-in knock-out), which are intended to operate as hedging instruments against fluctuations in the exchange rate between the Won and the U.S. dollar. Due to the significant depreciation of the Won against the U.S. dollar in 2008 and 2009, customers who have purchased KIKO products from Woori Bank are required to make large payments to the Bank. Seven companies have filed lawsuits against Woori Bank alleging that the contracts under which the relevant KIKO products were sold by Woori Bank should be nullified and that Woori Bank should return payments received thereunder. The aggregate amount of such claims, as of April 30, 2010, was ₩32 billion, and such amount may increase as the lawsuits progress or in the event of further depreciation of the Won against the U.S. dollar. The trial court in one of these lawsuits ruled in favor of Woori Bank in part, and the decision was appealed by the plaintiff to the appellate court where it is currently pending. Furthermore, as of April 30, 2010, five companies had filed motions for a preliminary injunction against Woori Bank in connection with KIKO products sold by it. Two such preliminary injunction motions have been ruled in Woori

Bank s favor by the trial court, two were withdrawn, and one is currently pending in the appellate court. Additional lawsuits and motions for preliminary injunctions may be filed against Woori Bank with respect to KIKO products, and the final outcome of such litigation remains uncertain.

Kwangju Bank

On October 24, 2001, The Export-Import Bank of Korea filed a lawsuit in Seoul District Court 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. 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 appealed this decision to the Seoul High Court, which dismissed the appeal in December 2005. Kwangju Bank appealed the decision of the appellate court to the Supreme Court of Korea in January 2006, and the Supreme Court dismissed such appeal in July 2006. Subsequently, The Export-Import Bank of Korea filed an additional lawsuit in the Seoul District Court in December 2006 requesting monetary damages in satisfaction of Kwangju Bank s obligations relating to the certificate of guarantee. Following a decision by the trial court in August 2008 ordering Kwangju Bank to pay US$41 million of monetary damages to The Export-Import Bank of Korea and Kwangju Bank s subsequent appeal of the trial court decision, the appellate court ruled in favor of The Export-Import Bank of Korea in December 2009 but reduced the amount of monetary damages payable by Kwangju Bank to US$35 million. Such appellate court decision was appealed by both The Export-Import Bank of Korea and Kwangju Bank to the Supreme Court of Korea in January 2010, where the case is currently pending.

Kyongnam Bank

From December 2008 to April 2010, certain employees of Kyongnam Bank colluded with several other parties to engage in various fraudulent transactions ostensibly on behalf of Kyongnam Bank, including providing to certain banks and companies commitments to purchase loans, guarantees for principal guaranteed trusts and other payment guarantees. The Financial Supervisory Service and we are currently investigating these incidents. Based on our preliminary investigation, we believe that our total potential exposure under such fraudulent transactions is approximately ₩435 billion. This estimate may change over the course of our investigation. A number of the counterparties to such fraudulent transactions have demanded that Kyongnam Bank fulfill its alleged obligations under such transactions but Kyongnam Bank has refused to accede to such demands. As of June 21, 2010, one counterparty had filed a lawsuit against Kyongnam Bank with respect to such transactions. The amount claimed in such lawsuit was ₩9 billion. Additional lawsuits may be filed against Kyongnam Bank with respect to such transactions, and the final outcome of such litigation remains uncertain. In addition, as a result of such fraudulent transactions and their potential impact on Kyongnam Bank and our consolidated financial condition and results of operations, the Financial Services Commission and the KDIC may impose penalties on Kyongnam Bank and us. 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 and Item 3D. Risk Factors Risks relating to government regulation and policy The Financial Services Commission may impose burdensome measures on us if it deems us or one of our subsidiaries to be financially unsound.

Woori Asset Management

Commencing in 2008, certain of Woori Asset Management s customers have filed lawsuits against it in connection with certain investment fund products created and managed by Woori Asset Management and sold to customers in Korea, which had invested in certain equity-linked securities issued by Lehman Brothers and incurred significant losses following the Lehman Brothers bankruptcy. The trial court ruled in favor of the plaintiffs in two of the pending suits and in favor of Woori Asset Management in another suit, all three of which have been appealed and are currently pending before the Seoul High Court. Four other cases are currently pending before the trial court. The aggregate amount of such claims, as of June 15, 2010, was

₩27 billion. Additional lawsuits may be filed against Woori Asset Management with respect to its management of such products, and the final outcome of such litigation remains uncertain.

In addition, in connection with the Woori Power Income Funds investment fund products created and managed by Woori Asset Management and marketed and sold by Woori Bank and other financial institutions to customers in Korea, certain such customers have filed lawsuits against Woori Asset Management as well as Woori Bank. See Woori Bank. As of June 15, 2010, 19 such lawsuits were pending and the aggregate amount claimed against Woori Asset Management in such lawsuits was approximately ₩6 billion. In 13 of such lawsuits, the trial courts ruled that Woori Asset Management was liable for damages equal to 15% to 40% of the losses suffered by the plaintiffs, while four of such lawsuits were ruled in favor of Woori Asset Management. All of these decisions were appealed to the appellate court, where they currently remain pending. Additional lawsuits may be filed against Woori Asset Management with respect to its management of such products, and the final outcome of such litigation remains uncertain.

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.

The table below sets forth the dividend per share of common stock and the total amount of dividends declared by us with respect to each of the five years ended December 31, 2009. The dividends set forth below with respect to each year were declared, paid and recorded in the following year.

Fiscal Year	Dividends Per Common Share	Dividends Per Preferred Share	Total Amount of Cash Dividends Paid
	(in Won)		(in millions of Won)
2005	400		322,406
2006	600		483,608
2007	250		201,500
2008			
2009	100		80,601

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 KRX KOSPI Market. Our common stock, which is in registered form and has a par value of ₩5,000 per share of common stock, has been listed on the KRX KOSPI Market since June 24, 2002 under the identifying code 053000. As of the date of this annual report, we have 806,012,780 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.

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 KRX KOSPI Market 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.

	KRX KOSPI Market			New York Stock Exchange[(1)]		
	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)
2005	20,650	8,220	2,350	61.47	23.50	3,188
2006	22,800	16,800	1,932	74.70	52.79	8,399
2007	25,800	16,500	3,320	83.79	51.71	11,033
2008						
First Quarter	19,200	15,600	2,720	62.04	46.97	7,775
Second Quarter	20,950	16,650	2,780	61.01	49.71	4,703
Third Quarter	16,650	11,700	4,612	48.60	26.26	12,158
Fourth Quarter	13,300	5,050	11,166	32.45	8.72	26,002
2009						
First Quarter	8,770	5,770	10,051	19.29	10.56	14,764
Second Quarter	12,850	7,160	11,311	29.90	16.75	18,437
Third Quarter	16,950	10,700	5,708	43.29	25.10	7,702
Fourth Quarter	16,900	13,300	4,561	43.78	35.00	10,589
2010						
January	16,000	13,400	4,267	42.50	33.93	13,558
February	14,450	12,950	2,914	36.60	33.05	6,858
March	16,800	13,750	3,807	44.10	34.35	7,852
April	18,300	16,000	8,305	49.68	43.06	6,081
May	17,700	14,900	5,863	38.01	36.15	7,000
June (through June 24)	16,050	14,600	6,739	40.49	35.80	6,178

Source: KRX KOSPI Market; New York Stock Exchange.

(1) 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.

Item 9B. ***Plan of Distribution***

Not Applicable

Item 9C. ***Markets***

The KRX KOSPI Market, formerly known as 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 KRX KOSPI Market is a membership organization consisting of most of the Korean securities companies and some Korean branches of foreign securities companies.

As of December 31, 2009, the aggregate market value of equity securities listed on the KRX KOSPI Market was approximately ₩888 trillion. The average daily trading volume of equity securities for 2009 was approximately 486 million shares with an average transaction value of ₩5,796 billion.

The KRX KOSPI Market 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 KRX KOSPI Market. The KRX KOSPI Market 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 KRX KOSPI Market publishes the KOSPI, which is an index of all equity securities listed on the KRX KOSPI Market, every ten seconds. 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.

The following table sets out movements in KOSPI:

	Opening	**High**	**Low**	**Closing**
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	893.71	1,379.37	870.84	1,379.37
2006	1,389.27	1,464.70	1,203.86	1,434.46
2007	1,435.26	2,064.85	1,355.79	1,897.13

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	Opening	High	Low	Closing
2008	1,853.45	1,888.88	938.75	1,124.47
2009	1,132.87	1,723.17	992.69	1,682.77
2010 (through June 24)	1,681.71	1,750.20	1,552.79	1,739.87

Source: The KRX KOSPI Market

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 KRX KOSPI Market to 15% of the previous day s closing price of the shares, rounded down as set out below:

Previous Day s Closing Price (Won)	Rounded Down to Won
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.

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 KRX KOSPI Market by financial investment companies with a dealing and/or brokerage license. 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 KRX KOSPI Market. See Item 10E. Taxation Korean Taxation.

The number of companies listed on the KRX KOSPI Market, 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:

	Market Capitalization on the Last Day of Each Period	Average Daily Trading Volume, Value

Year	Number of Listed Companies	(billions of ₩)	(millions of US$)(1)	(thousands of shares)	(millions of ₩)	(thousands of US$)(1)
1982	334	₩ 3,001	US$ 4,279	9,704	₩ 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

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Year	Number of Listed Companies	Market Capitalization on the Last Day of Each Period (billions of ₩)	(millions of US$)[1]	Average Daily Trading Volume, Value (thousands of shares)	(millions of ₩)	(thousands of US$)[1]
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	731	704,588	757,621	279,096	3,435,180	3,693,742
2007	745	951,900	1,017,205	363,741	5,539,653	5,919,698
2008	763	576,888	457,122	355,205	5,189,644	4,112,238
2009	770	887,935	763,027	485,657	5,795,426	4,980,172
2010 (through June 18)	771	943,747	784,788	406,445	5,268,861	4,381,407

Source: The KRX KOSPI Market

(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 Services Commission and the Financial Investment Services and Capital Markets Act, which replaced the Korean Securities and Exchange Act in February 2009. The Financial Investment Services and Capital Markets Act imposes restrictions on insider trading, price manipulation and deceptive action (including unfair trading), 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.

Protection of Customer s Interest in Case of Insolvency of Financial Investment Companies with a Brokerage License

Under Korean law, the relationship between a customer and a financial investment company with a brokerage license 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 financial investment company with a brokerage license) 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 financial investment company with a brokerage license, the customer of such financial investment company is entitled to the proceeds of the securities sold by such financial investment company.

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When a customer places a sell order with a financial investment company with a brokerage license which is not a member of the KRX KOSPI Market, and such financial investment company places a sell order with another financial investment company with a brokerage license, which is a member of the KRX KOSPI Market, 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 Financial Investment Services and Capital Markets Act, the KRX KOSPI Market is obliged to indemnify any loss or damage incurred by a counterparty as a result of a breach by its members. If a financial investment company with a brokerage license that is a member of the KRX KOSPI Market breaches its obligation in connection with a buy order, the KRX KOSPI Market 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.

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 financial investment company with a brokerage license is regarded as belonging to such financial investment company, which is liable to return the same at the request of its customer, the customer cannot take back deposited cash from such financial investment company if a bankruptcy or reorganization procedure is instituted against such financial investment 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 ₩50 million. Pursuant to the Financial Investment Services and Capital Markets Act, as amended, financial investment companies with a dealing and/or brokerage license 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 Financial Investment Services and Capital Markets Act. Set-off or attachment of cash deposits by such financial investment companies is prohibited. The premiums related to this insurance are paid by such financial investment 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 Services Commission and the KRX KOSPI Market 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% of the total issued and outstanding Equity Securities with respect to which the reporting requirements were violated. Furthermore, the Financial Services Commission may order that person to dispose of the unreported Equity Securities.

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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 KRX KOSPI Market within five 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 within the 5th day of the occurrence of the change. 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.

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 Service.

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 Services 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 KRX KOSPI Market or registered on the KRX KOSDAQ Market. Foreign investors may trade shares listed on the KRX KOSPI Market or registered on the KRX KOSDAQ Market only through the KRX KOSPI Market or the KRX KOSDAQ Market, 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;
- 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; and

sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the control of a common investment manager pursuant to applicable laws or contract.

For over-the-counter transactions between foreign investors outside the KRX KOSPI Market or the KRX KOSDAQ Market involving a class of shares for which the limit on aggregate acquisition by foreign investors has been reached or exceeded, a financial investment company with a brokerage license in Korea must act as an intermediary. Odd-lot trading of shares outside the KRX KOSPI Market or the KRX KOSDAQ Market must involve a financial investment company with a dealing license in Korea as the other party. Foreign investors may not engage in margin transactions by borrowing shares from financial investment companies with a dealing and/or brokerage license with respect to shares that are subject to a foreign ownership limit.

The Investment Rules require a foreign investor who wishes to invest in shares on the KRX KOSPI Market or the KRX KOSDAQ Market (including Converted Shares and shares being issued for initial listing on the KRX KOSPI Market or registration on the KRX KOSDAQ Market) 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 financial investment company with a brokerage license. 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;
- 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 Strategy and Finance under the Financial Investment Services and Capital Markets 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 depositary issuing depositary 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 KRX KOSPI Market or the KRX KOSDAQ Market, 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 KRX KOSPI Market or the KRX KOSDAQ Market, 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 or its standing proxy must ensure that the financial investment company engaged to facilitate the transaction reports the transaction to the governor of the Financial Supervisory Service. Also, sale and purchase of shares at fair value between foreigners who are part of an investor group comprised of foreign companies investing under the common control of a common investment manager pursuant to applicable laws or contract are required to be reported 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 acquisition of shares by a single person in their articles of incorporation. 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.

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 financial investment company with a dealing and/or brokerage license. 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 financial investment company with a dealing and/or brokerage license 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.

Financial investment companies with a dealing or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors stock investments in Korea. Through these accounts, financial investment companies with a dealing or brokerage license 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, Financial Investment Services and Capital Markets 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 Financial Investment Services and Capital Markets 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 ₩5,000 per share;
- shares of non-voting preferred stock, par value ₩5,000 per share;
- shares of non-voting redeemable preferred stock, par value ₩5,000 per share; and
- shares of non-voting convertible preferred stock, par value ₩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, 806,015,340 shares of common stock were issued and 806,012,780 shares of common stock were 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 21 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, 2009, our officers, directors and employees did not hold any options to purchase 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.

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Interests of Directors

Our articles of incorporation provide that any director who has a material interest in the subject matter of a resolution to be taken by the board of directors cannot vote on such resolution. Our articles of incorporation also provide that the remuneration of our directors is to be determined by the resolution of the general meeting of shareholders.

Our articles of incorporation do not contain any special provisions with respect to the borrowing powers exercisable by directors, their retirement age or a requirement to hold any shares of our capital stock.

See Item 6A. Board Practices for more information on our directors.

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.

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 165-6 of the Financial Investment Services and Capital Markets 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 542-3 of the Korean Commercial Code;

issued to the members of our employee stock ownership association pursuant to Article 165-7 of the Financial Investment Services and Capital Markets 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 depositary for the purpose of issuing depositary receipts pursuant to Financial Investment Services and Capital Markets 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 Financial Investment Services and Capital Markets 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, 2009, none of our employees owned any shares of our common stock through the employee stock ownership association.

In addition, our articles of incorporation permit us to issue convertible bonds or bonds with warrants, each up to an aggregate principal amount of ₩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, 2009, 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 Commercial Code 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.

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 Financial Investment Services and Capital Markets 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 circumstances 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.

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 KRX KOSPI Market 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 Financial Investment Services and Capital Markets Act, if we or the dissenting stockholders do not accept the purchase price, either party may bring a claim in court.

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 Financial Investment Services and Capital Markets 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 Services 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.

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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.

Under the Financial Investment Services and Capital Markets Act, we must file with the Financial Services Commission and the KRX KOSPI Market:

- 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 Services Commission and the KRX KOSPI Market.

Transfer of Shares. Under the Korean Commercial Code, share transfers are effected by the delivery of share certificates. The Financial Investment Services and Capital Markets Act provides, however, that in case of a company listed on the KRX KOSPI Market (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;
- financial investment companies with a dealing license (including domestic branches of foreign financial investment companies with such license);
- financial investment companies with a brokerage license (including domestic branches of foreign financial investment companies with such license);
- foreign exchange banks (including domestic branches of foreign banks); and

financial investment companies with a collective investment license (including domestic branches of foreign financial investment companies with such license).

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.

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 Financial Investment Services and Capital Markets Act and after submission of certain reports to the Financial Services Commission, we may purchase our own capital stock on the KRX KOSPI Market 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.

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 2010. See Item 4A. History and Development of the Company History Relationship with the Korean Government.

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 Strategy and Finance. The Financial Services 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 Financial Investment Services and Capital Markets 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 Strategy and Finance 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 Strategy and Finance 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 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 financial investment company with a dealing and/or brokerage license. 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 financial investment company with a dealing and/or brokerage license 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.

Financial investment companies with a dealing and/or brokerage license may open foreign currency accounts with foreign exchange banks exclusively to accommodate foreign investors stock investments in Korea. Through these accounts, such financial investment 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;

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.

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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.

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 that you receive the dividend (or the depositary receives the dividend, 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 as defined for U.S. federal income tax purposes (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, we believe that we were not a PFIC in our 2008 or 2009 taxable year. In addition, based on our audited financial statements and current expectations regarding our income, assets and activities, we do not anticipate becoming a PFIC for our 2010 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. If no such rules apply, you may claim a credit against your U.S. federal income tax liability for Korean taxes withheld from dividends on the common shares or ADSs at the rate provided for under the income tax treaty between the United States and Korea, 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 category 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 22.0% (inclusive of resident surtax). If you are a beneficial owner of the dividends 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 earning surplus or certain capital 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 depositary.

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, 22.0% (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 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.

Capital gains earned by you (regardless of whether you have a permanent establishment in Korea) from the transfer of ADSs outside Korea (except for transfer of ADSs which you received upon the deposit of our shares represented by the ADSs) 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 financial investment company with a brokerage license in Korea, the financial investment company, is required to withhold Korean tax from the sales price in an amount equal to the lower of (1) 11% (inclusive of resident surtax) of the gross realization proceeds or (2) subject to the production of satisfactory evidence of acquisition costs and certain direct transaction costs of the common shares or ADSs, 22.0% (inclusive of resident surtax) of the net realized gain, 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 financial investment 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.

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 financial investment company, as applicable, a certificate as to his tax residence. In the absence of sufficient proof, we, the purchaser or the financial investment company, as applicable, must withhold tax at the normal rates. Furthermore, in order for you to obtain the benefit of a tax exemption on certain Korean source income (such

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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 0.3% (including an agriculture and fishery special surtax) 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 financial investment company only, such financial investment 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 financial investment 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

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, foreign exchange risk and commodity 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. With respect to credit risk management systems, we have completed implementing standardized credit risk management systems based on Woori Bank s system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System in 2006, and also completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities by the end of 2008. Furthermore, following the global financial crisis, we undertook a group-wide review of our credit risk management procedures with outside consultants in 2009, as well as undertaking further group-wide reviews of our risk management infrastructure and systems in 2009 and 2010, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems. 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. In 2007, we completed the implementation of a group-wide, standardized risk management system (except with respect to operational risk), which we further refined and updated through our group-wide review of risk management procedures, infrastructure and systems undertaken in 2009 and 2010 in the wake of the global financial crisis.

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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;
- risk capital with respect to credit risk, market risk, operational and business risk with respect to Woori Investment & Securities;
- risk capital with respect to insurance risk with respect to Woori Aviva Life Insurance; 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 credit risk on the basis of our banking subsidiaries standardized credit risk management systems, which are based on Woori Bank s CREPIA system;
- 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 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 as a percentage of available capital, on a non-consolidated basis, with respect to 2010 is as follows:

	Available capital	Risk capital	Risk appetite	Credit	Market	Interest rate	Operational	Insurance	Business	Correlation Effect	Bu
	(in billions of Won, except percentages)										
i Finance ngs	₩ 18,613	₩ 15,038	80.8%	64.8%	7.1%	4.4%	5.1%		4.9%	(5.5)%	19
i Bank	16,051	12,852	80.1	66.6	4.6	4.6	4.7		4.3	(4.8)	19
gju Bank	1,061	885	83.4	72.4	2.5	3.8	6.6		3.7	(5.5)	16
gnam Bank	1,560	982	63.0	53.8	3.3	3.8	5.8		1.2	(5.1)	37
i tment & ities	2,398	1,530	63.8	27.6	27.1	1.2	5.4		8.8	(6.4)	36
i Asset gement(1)	67	39	57.9				7.4		50.4		42
i Financial	211	201	95.1	90.7		3.3	5.3			(4.2)	4
i Aviva Life ance	91	86	94.4	60.5	9.4	26.4	2.2	18.7%		(22.8)	3

(1) Formerly known as Woori Credit Suisse Asset Managerment.

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 with support from the applicable Subsidiary Risk Management Council, but must keep within the group s risk guidelines. The Subsidiary Risk Management Committees generally receive input from their respective Subsidiary Risk Management Councils and subsidiary risk management units, which also report directly to the Group Risk Management Council.

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The following chart sets out 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 Department. 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, the Subsidiary Risk Management Committees and the Subsidiary Risk Management Councils 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.

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 and four 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 is a member of the committee, he is 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 our risk management department 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, and 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.

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

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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.

Subsidiary Risk Management Council

Our subsidiaries generally have a Subsidiary Risk Management Council, which is responsible for supporting the relevant Subsidiary Risk Management Committee in the implementation of its risk management policies and guidelines for such subsidiary, including by reviewing and reporting on agenda items to be discussed at meetings of the relevant Subsidiary Risk Management Committee, reviewing reports from the relevant subsidiary risk management units and performing any other duties delegated by the relevant Subsidiary Risk Management Committee.

Each Subsidiary Risk Management Council is generally comprised of the subsidiary s chief risk management officer, the head of its risk management unit and other executive officers responsible for such subsidiary s risk management-related functions. It operates independently from all business units, and reports directly to the Subsidiary Risk Management Committee.

Woori Bank, Kyongnam Bank and Kwangju Bank have each 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.

Our non-banking subsidiaries generally have more 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 utilizing 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 a standardized credit risk management system based on Woori Bank s centralized credit risk management system called the CREPIA system. Woori Bank, together with several external consultants, completed the development and implementation of the CREPIA system in September 2004. 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 loan or credit. Following upgrades to the CREPIA system completed in 2007, including the implementation of a credit risk measurement engine, the system quantifies credit risk with respect to corporate borrowers using a mark-to-market methodology, which reflects both the likelihood of a default by a borrower as well as the likelihood of a change in such borrower s credit rating, and quantifies credit risk with respect to retail borrowers using a default mode methodology, which reflects the likelihood of a default by a borrower. We believe that CREPIA is a systematic and efficient credit evaluation system and that our banking subsidiaries have expedited their loan review process and improved their 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.

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 converting 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 the capital adequacy levels of each 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. In 2006, we also established a principal investment limit for investment activities that any of our banking subsidiaries, Woori Investment &

Securities, Woori F&I and Woori Private Equity undertakes as a principal (as opposed to as an agent). Such principal investment limit was also established for Woori Aviva Life Insurance in 2009. The principal investment limit for each subsidiary is set as a certain percentage of the capitalization of such subsidiary.

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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.

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 are currently in the process of implementing 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

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personnel. Kyongnam Bank and Kwangju Bank have a similar evaluation and approval process, and are currently using standardized credit evaluation systems based on the CREPIA system following the completion of upgrades to standardize such systems in 2007.

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:

Committee	Members	Approval Process
Headquarters Approval		
Loan Committee	Head of the credit support unit, head of the risk management unit and other members selected by the bank chief executive officer (no more than seven persons)	2/3 required for approval; 2/3 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.

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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 historically differed among our subsidiaries, our banking subsidiaries currently use standardized credit evaluation systems (including standardized credit risk measurement engines) following the completion of upgrades in 2007 to standardize these systems as part of our group-wide, standardized risk management system. 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 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 that are subject to external audit under the External Audit Act of Korea, large corporate borrowers that are not subject to external audit, medium-sized enterprises and SOHO borrowers that either have outstanding loans, or are applying for a loan, in excess of ₩1 billion. 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 14 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;