WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 30, 2004
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As filed with the Securities and Exchange Commission on June 30, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2003

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-15258

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which

	registered
American Depositary Shares, each representing one share of Common Stock	New York Stock Exchange Inc.
Common Stock, par value (Won)5,000 per share	New York Stock Exchange Inc.*

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.

775,504,910 shares of common stock, par value (Won)5,000 per share

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

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

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

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

Woori Finance Holdings has distributed printed copies of this Form 20-F to holders of its New York Stock Exchange-listed American Depository Shares in lieu of distributing copies of its annual report in compliance with Rule 203.01 of the New York Stock Exchange listing manual.

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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, 2000, 2001, 2002 and 2003 has been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

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

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 or the Republic are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, US dollars, $ or US$ are to United States dollars.

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

For your convenience, this document 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, 2003, which was (Won)1,192.0 = US$1.00.

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FORWARD-LOOKING STATEMENTS

The 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 such as aim, will likely result, will continue, contemplate, seek to, future, objective, goal, should, will pursue, anticip project, intend, plan, believe and words and terms of similar substance used in connection with any discussion of future operating or financial performance identify 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;

our growth and expansion;

future levels of non-performing loans;

the adequacy of allowance for credit and investment losses;

technological changes;

interest rates;

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.

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;
- 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 environments in Korea; and
- regional or general changes in asset valuations.

For further discussion of the factors that could cause actual results to differ, see Item 3D. Risk Factors. We caution you not to place undue reliance on the forward-looking statements, which speak only as of the date of

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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 section.

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

Unless otherwise indicated, the selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2000, 2001, 2002 and 2003 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP.

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,				
	2000[1]	2001	2002	2003	2003[2]
	(in billions of Won except per share data)				(in millions of US$ except per share data)
Interest and dividend income	(Won) 5,919	(Won) 7,180	(Won) 6,950	(Won) 7,520	$ 6,309
Interest expense	4,406	4,764	3,991	4,117	3,454
Net interest income	1,513	2,416	2,959	3,403	2,855
Provision for loan losses	1,434	1,114	1,247	2,313	1,941
Provision for guarantees and acceptances (reversal of provision) [3]	(239)	(159)	106	201	169
Other provision [4]	68	173	146	102	85
Non-interest income	736	1,046	1,784	1,435	1,204
Non-interest expense	1,736	2,080	2,579	2,636	2,212
Income tax expense	62	323	363	254	213
Minority interest income	3	4	6	4	3
Income (loss) from continuing operations	(815)	(73)	296	(672)	(564)
Income (loss) from discontinued operations [5]	0	(59)	718		
Net income (loss)	(815)	(132)	1,014	(672)	(564)
Other comprehensive income (loss), net of tax	(89)	41	(182)	97	82
Comprehensive income (loss)	(Won) (904)	(Won) (91)	(Won) 832	(Won) (575)	$ (482)
Per common share data:					
Net income (loss) per share basic	(1,120)	(182)	1,353	(871)	(1)
Income (loss) per share from continuing operations basic	(1,121)	(100)	395	(871)	(1)
Income (loss) per share from discontinued operations basic	1	(82)	958		
Weighted average common shares outstanding basic (in thousands)	727,459	727,459	749,383	771,724	771,724
Net income (loss) per share diluted[6]	(1,120)	(182)	1,349	(871)	(1)
Income (loss) per share from continuing operations diluted	(1,121)	(100)	394	(871)	(1)
Income (loss) per share from discontinued operations diluted	1	(82)	955		
Weighted average common shares outstanding diluted (in thousands)	727,459	730,963	751,785	778,392	778,392
Cash dividends paid per share [7]			(Won) 250	(Won) 100	$ 0.08

(1) Because the acquisitions occurred toward the end of 2000, data for 2000 does not fully reflect the effects of our acquisitions of Woori Investment Bank, effective November 21, 2000, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, effective December 29, 2000, each of which was accounted for using the purchase method of accounting. See Item 5A. Operating Results Overview Acquisitions and Dispositions.

(2) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.

(3) The reversals of provisions in 2000 and 2001 resulted from subsequent changes in our estimation of losses related to our guarantees and acceptances. We determined in each of 2000 and 2001 that a portion of our allowances for losses on guarantees and acceptances were no longer needed, and accordingly reversed the related portions of the provisions we had initially allocated during those years. See Item 5A. Operating Results Results of Operations Provision for Loan Losses Comparison of 2001 to 2000.

(4) Mainly consists of provisions relating to (a) repurchase obligations with respect to loans sold to the Korea Asset Management Corporation and (b) trade receivables.

(5) Discontinued operations consisted of Hanvit Leasing and its three subsidiaries, which were sold in June and December 2002, and a subsidiary of Woori Investment Bank, which we entered into an agreement to sell in December 2002. See Note 29 of the notes to our consolidated financial statements.

(6) In the diluted earnings per share calculation, our convertible bonds and warrants outstanding as of December 31, 2003 are assumed to have been converted into shares of our common stock. As of December 31, 2003, the exercise prices of all outstanding options to purchase our common stock were higher than their corresponding average market prices of our

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common stock. Accordingly, such options were excluded from the computation of diluted earnings per share. See Note 33 of the notes to our consolidated financial statements.

(7) U.S. GAAP requires that dividends be recorded in the period in which they are declared rather than the period to which they relate unless those periods are the same. With respect to the 2002 fiscal year, we paid dividends in 2003 of (Won)250 per common share ($0.21 per common share at the noon buying rate in effect on December 31, 2003) to our stockholders other than the KDIC. With respect to the 2003 fiscal year, we paid dividends in 2004 of (Won)100 per common share ($0.08 per common share at the noon buying rate in effect on December 31, 2003) to our stockholders, including the KDIC. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated balance sheet data

	As of December 31,				
	2000	2001	2002	2003	2003 [1]
	(in billions of Won)				(in millions of US$)
Assets					
Cash and cash equivalents	(Won) 3,980	(Won) 3,508	(Won) 2,852	(Won) 2,550	$ 2,140
Restricted cash	1,975	1,895	3,076	3,222	2,703
Interest-earning deposits in other banks	535	1,687	1,826	1,640	1,376
Call loans and securities purchased under resale agreements	2,132	3,573	629	1,127	946
Trading assets	3,505	4,130	3,790	4,291	3,600
Available-for-sale securities	8,233	8,820	10,846	12,408	10,409
Held-to-maturity securities (fair value of (Won)12,186 billion in 2000, (Won)11,799 billion in 2001 and (Won)10,448 billion in 2002 and (Won)10,143 billion ($8,509 million) in 2003)	11,713	11,202	9,959	9,801	8,223
Other investment assets [2]	532	911	731	793	665
Loans (net of allowance for loan losses of (Won)6,457 billion in 2000, (Won)4,323 billion in 2001 and (Won)3,770 billion in 2002 and (Won)2,834 billion ($2,377 million) in 2003)	53,533	56,817	76,485	85,587	71,801
Due from customers on acceptances	1,898	569	461	421	353
Premises and equipment, net	2,321	2,195	2,249	2,151	1,804
Accrued interest and dividends receivable	693	694	672	747	626
Assets held for sale	1,539	1,207	240		
Goodwill				25	21
Other assets [3]	4,846	3,475	3,227	2,850	2,391
Total assets	(Won) 97,435	(Won) 100,683	(Won) 117,043	(Won) 127,613	$ 107,058
Liabilities					
Deposits					
Interest bearing	(Won) 60,988	(Won) 65,511	(Won) 75,190	(Won) 85,482	$ 71,713
Non-interest bearing	4,537	3,582	3,408	3,521	2,954
Total deposits	65,525	69,093	78,598	89,003	74,667
Call money	214	503	804	412	346
Trading liabilities	321	148	322	473	397
Acceptances outstanding	1,898	569	461	421	353
Other borrowed funds	9,281	7,964	11,326	9,345	7,840

Secured borrowings	4,207	4,914	4,756	4,321	3,625
Long-term debt	7,764	8,947	11,305	14,917	12,514
Accrued interest payable	1,652	1,548	1,528	1,618	1,357
Liabilities held for sale	2,727	1,584	152		
Other liabilities [4]	4,451	3,074	3,555	3,218	2,700
Total liabilities	98,040	98,344	112,807	123,728	103,799
Minority interest	30	31	279	229	192
Total stockholders equity (deficit)	(635)	2,308	3,957	3,656	3,067
Total liabilities, minority interest and stockholders equity	(Won) 97,435	(Won) 100,683	(Won) 117,043	(Won) 127,613	$ 107,058

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(1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,192.0 to US$1.00, the noon buying rate in effect on December 31, 2003 as quoted by the Federal Reserve Bank of New York in the United States.
(2) For a description of other investment assets, see Note 10 of the notes to our consolidated financial statements.
(3) For a description of other assets, see Note 16 of the notes of our consolidated financial statements.
(4) For a description of other liabilities, see Note 21 of the notes to our consolidated financial statements.

Profitability ratios and other data

	Year ended December 31,			
	2000 [1]	2001	2002	2003
	(in billions of Won, except percentages)			
Return on average assets [2]	(1.11)%	(0.14)%	0.95%	(0.56)%
Return on average equity [3]	N/M	(61.68)	21.21	(17.17)
Net interest spread [4]	1.83	2.65	2.93	2.88
Net interest margin [5]	2.26	2.81	3.07	3.01
Cost-to-income ratio [6]	77.19	60.08	54.37	54.49
Average stockholders equity as a percentage of average total assets	(0.60)	0.23	4.47	3.25
Total revenue [7]	(Won) 6,655	(Won)8,226	(Won) 8,734	(Won)8,955
Operating expense [8]	6,142	6,844	6,570	6,753
Operating margin [9]	513	1,382	2,164	2,202
Operating margin as a percentage of total revenue	7.71%	16.80%	24.78%	24.59%

(1) Because the acquisitions occurred toward the end of 2000, data for 2000 does not fully reflect the effects of our acquisitions of Woori Investment Bank, effective November 21, 2000, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, effective December 29, 2000, each of which was accounted for using the purchase method of accounting. See Item 5A. Operating Results Overview Acquisitions and Dispositions.
(2) Represents net income (loss) as a percentage of average total assets. Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori CA Asset Management, Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.
(3) Represents net income (loss) as a percentage of average stockholders equity. N/M = not meaningful.
(4) Represents the difference between the yield on average interest earning assets and cost of average interest bearing liabilities.
(5) Represents the ratio of net interest income to average interest earning assets.
(6) Represents the ratio of non-interest expense to the sum of net interest income and non-interest income.
(7) Total revenue represents interest and dividend income plus non-interest income.

The following table shows how total revenue is calculated:

	Year ended December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Interest and dividend income	(Won) 5,919	(Won) 7,180	(Won) 6,950	(Won) 7,520
Non-interest income	736	1,046	1,784	1,435

Total revenue	(Won) 6,655	(Won) 8,226	(Won) 8,734	(Won) 8,955

(8) Operating expense represents interest expense plus non-interest expense, excluding provisions of (Won)1,263 billion, (Won)1,128 billion, (Won)1,499 billion and (Won)2,616 billion for 2000, 2001, 2002 and 2003, respectively.

The following table shows how operating expense is calculated:

	Year ended December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Interest expense	(Won) 4,406	(Won) 4,764	(Won) 3,991	(Won) 4,117
Non-interest expense	1,736	2,080	2,579	2,636
Operating expense	(Won) 6,142	(Won) 6,844	(Won) 6,570	(Won) 6,753

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

Asset quality data

	As of December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Total loans	(Won) 60,086	(Won) 61,192	(Won) 80,226	(Won) 88,392
Total non-performing loans [(1)]	9,664	6,015	3,576	2,594
Other impaired loans not included in non-performing loans	2,483	3,435	3,143	1,861
Total non-performing loans and other impaired loans	12,147	9,450	6,719	4,455
Total allowance for loan losses	6,457	4,323	3,770	2,834
Non-performing loans as a percentage of total loans	16.08%	9.83%	4.46%	2.93%
Non-performing loans as a percentage of total assets	9.92	5.97	3.05	2.03
Total non-performing loans and other impaired loans as a percentage of total loans	20.22	15.44	8.37	5.04
Allowance for loan losses as a percentage of total loans	10.75	7.07	4.70	3.21

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

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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, 2003 for our business segments.

	Woori Bank [1]	Kyongnam Bank	Kwangju Bank	Woori Credit Card [2]	Other	Elimination [3]	Total
				(in billions of Won)			
Interest and dividend income	(Won) 5,846	(Won) 654	(Won) 524	(Won) 576	(Won) 104	(Won) (140)	(Won) 7,564
Interest expense	2,900	356	290	218	168	(90)	3,842
Net interest income	2,946	298	234	358	(64)	(50)	3,722
Provision for loan losses, guarantees and acceptances	808	128	95	1,650	16	(18)	2,679
Non-interest income	2,643	136	75	419	812	(659)	3,426
Non-interest expenses	3,255	246	174	325	405	(380)	4,025
Net non-interest income (loss)	(612)	(110)	(99)	94	407	(279)	(599)
Depreciation and amortization	73	5	7	2	109	17	213
Net income (loss) before tax	1,453	55	33	(1,200)	218	(328)	231
Income tax expense	105	(30)	(24)	121	7		179
Minority interest	2				2	(8)	(4)
Net income (loss) for the period under Korean GAAP	1,346	85	57	(1,321)	209	(320)	56
U.S. GAAP adjustments	(462)	(17)	21	(10)	(236)	(24)	(728)
Consolidated net income (loss)	(Won) 884	(Won) 68	(Won) 78	(Won) (1,331)	(Won) (27)	(Won) (344)	(Won) (672)
Segments total assets under Korean GAAP	105,333	11,045	8,789	2,462	9,434	(8,295)	128,768
U.S. GAAP adjustments	(1,820)	(112)	(31)	1,587	1,912	(2,691)	(1,155)
	(Won) 103,513	(Won) 10,933	(Won) 8,758	(Won)4,049	(Won) 11,346	(Won) (10,986)	(Won) 127,613

Segments total assets							

(1) As adjusted for the merger of Woori Investment Bank, which occurred in August 2003.

(2) In March 2003, we transferred the credit card operations of Kwangju Bank to Woori Credit Card. We merged Woori Credit Card with Woori Bank in March 2004.

(3) 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 2001, 2002 and 2003.

	Year ended December 31,								
	2001			2002			2003		
	Average Balance (1)	Interest Income (2)(3)	Average Yield	Average Balance (1)	Interest Income (2)(3)	Average Yield	Average Balance (1)	Interest Income (2)(3)	Average Yield
	(in billions of Won)								
Assets									
Interest-earning deposits in other banks	(Won) 2,639	(Won) 123	4.66%	(Won) 2,058	(Won) 86	4.18%	(Won) 2,161	(Won) 73	3.38%
Call loans and securities purchased under resale agreements	1,537	63	4.10	1,267	42	3.31	1,507	45	2.99
Trading securities (4)	3,781	235	6.22	4,062	215	5.29	3,950	202	5.11
Investment securities (4)	18,846	1,560	8.28	18,481	1,458	7.89	20,465	1,378	6.73
Loans									
Commercial and industrial	28,516	2,226	7.81	32,401	2,081	6.42	39,420	2,466	6.26
Lease financing	587	40	6.81	432	18	4.17	223	12	5.38
Trade financing	6,306	555	8.80	5,962	366	6.14	6,828	321	4.70
Other commercial	7,722	738	9.56	5,466	403	7.37	4,889	356	7.28
General purpose household (5)	11,659	986	8.46	20,799	1,523	7.32	26,874	1,814	6.75
Mortgage	1,119	97	8.67	1,713	123	7.18	3,066	196	6.39
Credit cards (3)	3,294	557	16.91	3,844	635	16.52	3,567	657	18.42
Total loans (6)	59,203	5,199	8.78	70,617	5,149	7.29	84,867	5,822	6.86
Total average interest-earning assets	86,006	7,180	8.35	96,485	6,950	7.20	112,950	7,520	6.66
Cash and cash equivalents	2,755			3,165			3,818		
Foreign exchange contracts and derivatives	168			262			403		
Premises and equipment	2,599			2,316			2,171		
Due from customers on acceptance	2,533			1,287			426		
Allowance for loan losses	(4,806)			(4,374)			(3,209)		
Other non-interest-earning assets (7)	4,662			7,908			4,034		
Total average non-interest-earning assets	7,911			10,564			7,643		

Total average assets	(Won) 93,917	(Won) 7,180	7.65%	(Won) 107,049	(Won) 6,950	6.49%	(Won) 120,593	(Won) 7,520	6.24%

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	Year ended December 31,								
	2001			2002			2003		
	Average Balance [1]	Interest Expense	Average Cost	Average Balance [1]	Interest Expense	Average Cost	Average Balance [1]	Interest Expense	Average Cost
	(in billions of Won)								
Liabilities									
Interest bearing liabilities									
Deposits									
Demand deposits	(Won) 15,208	(Won) 285	1.87%	(Won) 18,862	(Won) 216	1.15%	(Won) 20,443	(Won) 136	0.67%
Savings deposits	6,098	260	4.26	7,514	278	3.70	9,178	294	3.20
Certificate of deposit accounts	1,327	85	6.41	626	30	4.79	1,716	75	4.37
Other time deposits	38,789	2,565	6.61	41,296	2,104	5.09	48,159	2,178	4.52
Mutual installment deposits	755	59	7.81	944	72	7.63	959	60	6.26
Total deposits	62,177	3,254	5.23	69,242	2,700	3.90	80,455	2,743	3.41
Call money	903	39	4.32	1,160	38	3.28	1,077	35	3.25
Borrowings from the Bank of Korea	2,219	100	4.51	1,218	30	2.46	1,307	33	2.52
Other short-term borrowings	5,862	441	7.52	6,640	277	4.17	8,024	280	3.49
Secured borrowings	4,603	284	6.17	5,001	287	5.74	4,995	259	5.19
Long-term debt	7,808	646	8.27	10,122	659	6.51	13,157	767	5.83
Total average interest bearing liabilities	83,572	4,764	5.70	93,383	3,991	4.27	109,015	4,117	3.78
Non-interest bearing liabilities									
Demand deposits	2,665			3,020			2,814		
Foreign exchange contracts and derivatives	169			198			355		
Acceptances outstanding	2,533			1,287			426		
Other non-interest bearing liabilities	4,764			4,381			4,069		
Total average non-interest bearing liabilities	10,131			8,886			7,664		
Total average liabilities	93,703	4,764	5.08	102,269	3,991	3.90	116,679	4,117	3.53
Average stockholders equity	214			4,780			3,914		
Total average liabilities and stockholders equity	(Won) 93,917	(Won) 4,764	5.07%	(Won) 107,049	(Won) 3,991	3.73%	(Won) 120,593	(Won) 4,117	3.41%

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

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

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

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

(5) Includes home equity loans.

(6) Includes non-accrual loans.

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

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Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following tables provide an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 2002 compared to 2001 and 2003 compared to 2002. Volume and rate variances have been calculated on the movement in average balances and the change in the interest rates on average interest-earning assets and average interest bearing liabilities in proportion to absolute volume and rate change. The variance caused by the change in both volume and rate has been allocated in proportion to absolute volume and rate change.

	2002 vs. 2001 Increase/(decrease) due to changes in			2003 vs. 2002 Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
	(in billions of Won)					
Interest-earning assets						
Interest-earning deposits in other banks	(Won) (25)	(Won) (12)	(Won) (37)	(Won) 5	(Won) (18)	(Won) (13)
Call loans and securities purchased under resale agreements	(10)	(11)	(21)	6	(3)	3
Trading securities	20	(40)	(20)	(6)	(7)	(13)
Investment securities	(30)	(72)	(102)	220	(300)	(80)
Loans						
Commercial and industrial	482	(627)	(145)	437	(52)	385
Lease financing	(9)	(13)	(22)	(14)	8	(6)
Trade financing	(29)	(160)	(189)	74	(119)	(45)
Other commercial	(188)	(147)	(335)	(42)	(5)	(47)
General purpose household [(1)]	648	(111)	537	397	(106)	291
Mortgage	38	(12)	26	85	(12)	73
Credit cards	91	(13)	78	(37)	59	22
Total interest income	988	(1,218)	(230)	1,125	(555)	570
Interest bearing liabilities						
Deposits						
Demand deposits	111	(180)	(69)	20	(100)	(80)
Savings deposits	42	(24)	18	40	(24)	16
Certificate of deposit accounts	(37)	(18)	(55)	47	(2)	45
Other time deposits	180	(641)	(461)	230	(156)	74
Mutual installment deposits	14	(1)	13	1	(13)	(12)
Call money	(6)	5	(1)	(2)	(1)	(3)
Borrowings from the Bank of Korea	(35)	(35)	(70)	2	1	3
Other short-term borrowings	70	(234)	(164)	13	(11)	2
Secured borrowings	14	(11)	3		(28)	(28)
Long-term debt	46	(33)	13	166	(58)	108
Total interest expense	399	(1,172)	(773)	517	(392)	125
Net interest income	(Won) 589	(Won) (46)	(Won) 543	(Won) 608	(Won) (163)	(Won) 445

(1) Includes home equity loans.

Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2003, which was (Won)1,192.0 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 28, 2004, the noon buying rate was (Won)1,153.0 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	**High**	**Average** [1]	**Period-End**
1998	(Won) 1,196.0	(Won) 1,812.0	(Won) 1,367.3	(Won) 1,206.0
1999	1,125.0	1,243.0	1,188.2	1,136.0
2000	1,105.5	1,267.0	1,140.0	1,267.0
2001	1,234.0	1,369.0	1,293.4	1,313.5
2002	1,160.6	1,332.0	1,242.0	1,186.3
2003	1,146.0	1,262.0	1,193.0	1,192.0
2004 (through June 28)	1,141.4	1,195.1	1,165.2	1,153.0
January	1,172.0	1,195.1		
February	1,152.2	1,180.0		
March	1,146.7	1,181.0		
April	1,141.4	1,173.6		
May	1,165.0	1,191.0		
June (through June 28)	1,150.0	1,164.8		

(1) The average of the noon buying rates of the Federal Reserve Bank of New York for Won in effect on the last business day of each month 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 credit exposure 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 credit exposure (which includes loans and guarantees and acceptances) to small- and medium-sized enterprises increased from (Won)23,267 billion, or 22.5% of our total loans and other credits, as of December 31, 2000 to (Won)42,170 billion, or 35.7% of our total loans and other credits, as of December 31, 2003. As of December 31, 2003, under Korean GAAP loans and other credits to small- and medium-sized enterprises that were classified as substandard or below were (Won)938 billion, representing 2.2% of our total credits to those enterprises. Since 2002, the industry-wide delinquency ratios for loans and other credits to small- and medium-sized enterprises have been rising. According to data compiled by the Financial Supervisory Service, under Korean GAAP the delinquency ratio for loans by Korean banks to small- and medium-sized enterprises was 2.1% as of December 31, 2003. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are overdue by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio

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for such loans on a Korean GAAP basis increased from 1.5% as of December 31, 2001 to 2.2% as of December 31, 2003 and to 2.7% as of March 31, 2004 and may rise further in 2004. On a Korean GAAP basis, we charged off (Won)267 billion of our loans to small-and medium-sized enterprises in 2003. Accordingly, we may be required to take measures to decrease our exposures to these customers. For example, in order to stem rising delinquencies, we decided to restrict further lending to small- and medium-sized enterprises in certain industry sectors, such as real property leasing companies and hotels and restaurants, commencing in mid-2003 and implemented measures in 2003 and 2004 to limit the loan approval authority of branch managers based on the credit performance of the small- and medium-sized enterprise loans provided by their branches.

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

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

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

Of our 20 largest corporate exposures (including loans, debt and equity securities, guarantees and acceptances and other exposures) as of December 31, 2003, 12 were to companies that were members of the 29 largest chaebols in Korea. As of that date, the total amount of our exposures to the 29 largest chaebols was (Won)11,454 billion, or 9.7% 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.

In particular, we have significant exposure to several former Hyundai Group companies, former Daewoo Group companies and current and former SK Group companies, Ssangyong Group companies and LG Group companies, a number of which have been experiencing financial difficulties. For example:

As a result of their deteriorating financial condition, several former Hyundai Group companies, including Hynix Semiconductor, Hyundai Engineering and Construction, Hyundai Petrochemical and Hyundai Merchant Marine, have required assistance in recent years from their creditor financial institutions, in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-to-equity swap transactions, guarantees of overseas borrowings and injections of additional capital. In addition, in 2003, we downgraded the asset classification of our credit exposures to Hyundai Corporation from precautionary to substandard or below due to an increase in its capital deficit.

In 1999, the principal creditor banks of the Daewoo Group companies began formal workout procedures with respect to 12 member companies of that group, including Daewoo Corporation, Daewoo Motors, Daewoo Electronics, Daewoo Heavy Industries, Daewoo Telecom and Ssangyong Motors. Many of these former Daewoo Group companies are currently subject to liquidation proceedings or have been liquidated or sold, are under workouts or reorganization proceedings, have been split up into more than one company or are looking for purchasers.

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In March 2003, the principal creditor banks of SK Networks (formerly SK Global), a member company of the SK Group, commenced corporate restructuring procedures against SK Networks after the company announced that its financial statements understated its total debt by (Won)1 trillion and overstated its profits by (Won)1.5 trillion. These banks, including our subsidiaries, agreed to a temporary rollover of approximately (Won)6.6 trillion of SK Networks debt until June 18, 2003 and subsequently decided to put SK Networks into corporate restructuring. In October 2003, SK Networks foreign and domestic creditors agreed to a restructuring plan which, among other things, allowed the foreign creditors to cash out their debts at a buyout rate of 43% of the face value of the outstanding debt owed to them. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan.

Several Ssangyong Group companies have been experiencing significant financial difficulties and liquidity problems. In particular, the principal creditor banks of each of Ssangyong Cement Industrial and Ssangyong Corporation, including our subsidiaries, commenced corporate restructuring procedures against these companies in November 2000 and February 2002, respectively.

Although no workouts or reorganization proceedings have begun against any other significant LG Group companies, LG Card, one of Korea s largest credit card companies and formerly a member company of the LG Group, has been experiencing significant liquidity and asset quality problems. See We have exposure to a number of Korean credit card companies, and recent and future difficulties faced by those companies may have an adverse impact on us.

The table below summarizes our exposures to selected member companies of those groups, as of December 31, 2003:

	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Substandard or Below	Collateral	Allowance for Loan Losses	Allowance for Loan Losses as a % of Exposure
	(in billions of Won, except percentages)					
Former Hyundai Group						
Hyundai Group (2)	(Won) 371	0.31%	22.42%	(Won)16	(Won)68	18.33%
Hyundai Engineering and Construction	96	0.08	0.92	2	2	1.71
Hyundai Motors Group (3)	745	0.63		3	3	0.43
Hyundai Heavy Industries	6					0.00
Hynix Semiconductor	168	0.14	43.02	4	43	25.53
Former Daewoo Group						
Daewoo International	257	0.22			1	0.37
GM Daewoo Auto & Technology	103	0.09			29	28.36
Daewoo Electronics	159	0.13			17	10.59
Ssangyong Motors	35	0.03		10		0.06
SK Group						
SK Networks	195	0.16	82.21	4	78	40.01
Ssangyong Group						
Ssangyong Corporation	80	0.07	66.19		25	30.89
Ssangyong Cement Industrial	38	0.03	24.99		2	6.04
Ssangyong Construction	11	0.01	17.66		1	4.47
Namkwang Construction	2					
LG Group						
LG Card (4)	594	0.50			14	2.41

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(1) Comprises loans, debt and equity securities, guarantees and acceptances and other exposures.
(2) Recognized as the successor to the former Hyundai Group, which includes Hyundai Corporation and Hyundai Merchant Marine. Substantially all of the outstanding exposure of Hyundai Merchant Marine relates to ship financing to a special purpose company guaranteed by Hyundai Heavy Industries.
(3) Comprises Hyundai Motors, Kia Motors, Hyundai Capital, Hyundai Card and INI Steel.
(4) LG Card was disaffiliated from the LG Group in January 2004.

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.

We have exposure to a number of Korean credit card companies, and recent and future difficulties faced by those companies may have an adverse impact on us.

Our exposure to Korean credit card companies increased from (Won)182 billion as of December 31, 2001, to (Won)1,294 billion as of December 31, 2003, which represented 0.2% and 1.1% of our total exposures as of those dates. As of December 31, 2003, loans and other credits to Korean credit card companies that were classified as precautionary or below were (Won)498 billion, representing 0.4% of our total exposure. The Korean credit card industry has experienced increasing delinquency rates with respect to credit card receivables in recent years. Rising delinquency levels and declining demand for their securities have led to financial difficulties for many credit card companies.

The table below summarizes our exposures to Korean credit card companies as of December 31, 2003:

	Outstanding Exposure (1)	% of Total Exposure	% of Exposure Classified as Substandard or Below	Collateral	Allowance for Credit Losses	Allowance for Credit Losses as a % of Exposure
	(in billions of Won, except percentages)					
LG Card	(Won) 674	0.57%			(Won) 186	27.60%
Samsung Card	481	0.41			1	0.10
BC Card	43	0.04				
Lotte Credit Card	20	0.02				0.25
Others	76	0.06				
Total	(Won) 1,294	1.10%			(Won) 187	14.45%

(1) Comprises loans, debt and equity securities, asset-backed securities, guarantees and acceptances and other exposures.

The continuing deterioration of the Korean credit card industry has resulted in our reviewing the credit quality of credit card companies more diligently and more frequently and reclassifying the loans and other credits provided to such companies as necessary. For example, LG Card, one of Korea s largest credit card companies, has been experiencing significant liquidity and asset quality problems. In November 2003, the creditor banks of LG Card (including our subsidiaries) agreed to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was (Won)246 billion. Certain of LG Card s creditor banks (including our subsidiaries) also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corp. (the group holding company), LG Investment & Securities and LG Card as collateral to offset future losses of LG Card. Our portion of this extension was (Won)246 billion.

After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a

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25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of (Won)953.9 billion for shares constituting 54.8% of the outstanding share capital of LG Card. The creditors also extended (Won)1.59 trillion of new loans to LG Card, which will subsequently be converted into equity. LG Group also funded an additional (Won)800 billion to LG Card in the first quarter of 2004 (in addition to a (Won)185 billion capital increase as a result of LG Card s issuance of new shares in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. Following the capital write-down, the creditors plan to exchange a further (Won)2,545.5 billion of indebtedness into equity of LG Card. In addition, as LG Card required additional funding, the LG Group and the Korea Development Bank provided (Won)375 billion and (Won)125 billion, respectively, in the first quarter of 2004. In accordance with the plan, in February 2004, we swapped (Won)88 billion of LG Card debt for equity, extended (Won)176 billion of new loans to LG Card and purchased (Won)88 billion of new debt securities issued by LG Card, which loans and debt securities will also be converted into equity. After all such debt-to-equity conversions, we expect to own a 10.3% equity interest in LG Card and have (Won)246 billion of loans, (Won)80 billion of asset-backed securities and (Won)161 billion of debt securities of LG Card that will remain outstanding, which will be our total exposure with respect to LG Card.

As of December 31, 2003, our total exposure to LG Card was (Won)674 billion, comprising (Won)37 billion of loans, (Won)80 billion of asset-backed securities backed by credit card receivables of LG Card that had been securitized, (Won)381 billion of debt securities and (Won)176 billion of guarantees and acceptances. As of such date, all of our loans to LG Card were classified as precautionary. As a result of the deteriorating financial condition of LG Card, we recorded provisions of (Won)186 billion with respect to loans and guarantees and acceptances and recognized securities impairment losses of (Won)206 billion in 2003 in respect of our exposures to LG Card.

The value of underlying collateral, our pro rata entitlement thereto and the allowances we have established or will establish against our exposures to LG Card and other Korean credit card companies may not be sufficient to cover all future losses arising from these exposures. Following the debt-to-equity conversions in respect of our exposures to LG Card, we may experience further losses if the market value of the LG Card equity securities we own falls below their recorded book value. In addition, in the case of credit card 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.

In addition, our investment portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by credit card companies. Accordingly, to the extent that the value of securities issued by credit card companies declines as a result of their financial difficulties or otherwise, we may experience losses on our investment securities.

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, 2003, our 20 largest exposures to corporate borrowers totaled (Won)16,724 billion, which represented 14.2% of our total exposures. As of that date, our single largest corporate exposure was to the KDIC, to which we had outstanding credits in the form of debt securities of (Won)8,531 billion, representing 7.2% of our total exposures. Aside from exposure to the KDIC and other government-related agencies, our next largest exposure was to Samsung Electronics, to which we had outstanding exposure of (Won)1,158 billion representing 1.0% of our total exposures. See Item 4A. History and Development of the Company History. We have made efforts to reduce our outstanding credit exposure to large corporate borrowers, including through asset sales,

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credit line reductions and credit write-offs. Any further 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, 2003, our exposures to companies that were in workout, corporate restructuring, composition or corporate reorganization, including companies in the former Daewoo Group, the former Hyundai Group and the Ssangyong Group amounted to (Won)2,017 billion, or 1.7% of our total exposures, of which (Won)723 billion, or 35.9%, was classified as substandard or below. As of the same date, our allowances for loan losses on these exposures amounted to (Won)389 billion, or 19.3% of these exposures. These allowances may not be sufficient to cover all future losses arising from our exposure to these companies. Furthermore, in the case of our borrowers that are or become subject to corporate restructuring procedures, 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% of the total outstanding secured debt) of the borrower, or to dispose of our credits to other creditors on unfavorable terms.

Risks relating to our consumer credit portfolio

We have been experiencing, and may continue to experience, increases in delinquencies in our consumer loan and credit card portfolios.

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans has grown from (Won)9,780 billion as of December 31, 2000 to (Won)30,357 billion as of December 31, 2003. Our credit card portfolio has grown from (Won)3,593 billion as of December 31, 2000 to (Won)6,418 billion as of December 31, 2002, but decreased to (Won)3,964 billion as of December 31, 2003 as a result of increased charge-offs and our efforts to reduce our credit card exposure. As of December 31, 2003, our consumer loans and credit card receivables represented 34.4% and 4.5% of our total lending, respectively. Until the second half of 2003, the growth of our consumer lending and credit card businesses, which offer higher margins than other lending activities, contributed significantly to the increase in our interest income and our profitability. Within our consumer loan portfolio, the outstanding balance of general purpose household loans, which, unlike mortgage or home equity loans, is often unsecured and therefore tends to carry a higher credit risk, has increased from (Won)8,237 billion, or 54.3% of our total outstanding consumer loans, as of December 31, 2001 to (Won)12,765 billion, or 42.1% of our total outstanding consumer loans, as of December 31, 2003.

The rapid growth in our consumer loan and credit card portfolios has been accompanied by increasing delinquencies and a deterioration in asset quality. Our consumer loans classified as substandard or below increased from (Won)106 billion, or 1.1% of our consumer loan portfolio, as of December 31, 2000 to (Won)396 billion, or 1.3% of our consumer loan portfolio, as of December 31, 2003.

In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)220 billion, or 6.1% of our credit card receivables, as of December 31, 2000 to (Won)938 billion, or 23.7% of our credit card receivables, as of December 31, 2003. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans and also replaced a portion of our delinquent credit card account balances with cash advances that are rolled over from month to month. We discontinued the practice of providing such substituted cash advances commencing in September 2003. As of December 31, 2003, these restructured loans and substituted cash advances amounted to (Won)695 billion and (Won)334 billion, respectively, or in aggregate 26.0% of our credit card balances. Because these restructured loans and substituted cash advances are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding consumer loans and credit card balances. Including all restructured loans and substituted cash

advances, outstanding balances overdue by 30 days or more accounted for 37.3% of our credit card receivables as of December 31, 2003. We charged-off credit card balances amounting to approximately (Won)1.3 trillion in 2003, as compared to a (Won)260 billion in 2002, resulting in a material adverse effect on our results of operations for 2003. Delinquencies may increase further in the future as a result of, among other things, adverse economic developments in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt, as reflected, for example, in the practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

Further deterioration of the asset quality of our consumer loan and credit card portfolios would require us to increase our loan loss provisions and charge-offs and will adversely affect our financial condition and results of operations. Our loan loss provisions in respect of our consumer loan and credit card portfolios, as a percentage of total average consumer loan and credit card balances, increased from 1.9% in 2000 to 5.7% in 2003. In addition, our charge-offs of non-performing consumer loans and delinquent credit card receivables, as a percentage of total average consumer loan and credit card balances, increased from 2.4% in 2000 to 4.4% in 2003.

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

Our credit card operations have diverted and may continue to divert financial resources from our other operations, which could hurt our financial condition and performance.

In response to the liquidity problems of our former credit card subsidiary, Woori Credit Card, stemming from the deteriorating asset quality of its credit card portfolio, our board of directors resolved in December 2003 to merge Woori Credit Card with our principal banking subsidiary, Woori Bank. This merger was completed in March 2004. Woori Credit Card had failed to meet the financial targets under its memorandum of understanding with the KDIC commencing as of the end of the second quarter of 2003 and generated a net loss under Korean GAAP of (Won)1,321 billion in 2003 and (Won)466 billion in the first quarter of 2004. In 2003, we provided financial assistance to Woori Credit Card in the amount of approximately (Won)840 billion, in the form of capital contributions, which were funded by proceeds from our redemption of subordinated bonds issued by Woori Bank and by dividends from Woori Bank. Furthermore, in December 2003, we cancelled 94.4% of the shares we held in Woori Credit Card, with an aggregate par value of approximately (Won)1.9 trillion, in connection with a capital reduction of Woori Credit Card to offset its accumulated deficit. In addition, in March 2004, prior to the merger, we made an additional capital contribution of (Won)800 billion to Woori Credit Card, which was also funded by proceeds from our redemption of subordinated bonds issued by Woori Bank and dividends from Woori Bank.

Despite the measures taken by us to improve Woori Credit Card s asset quality and capital position prior to its merger with Woori Bank, our credit card operations may continue to generate net losses through 2004. Accordingly, even after the merger, our credit card operations may continue to divert financial resources from our other operations, which may adversely affect our overall financial condition and performance.

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

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 50% of the appraised value of collateral (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) and to periodically re-appraise our collateral, downturns in

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the real estate markets in Korea from time to time have resulted in declines in the value of the collateral securing some loans to levels below their outstanding principal balance. Future declines in real estate prices, including as a result of measures adopted by the Korean government in 2003 to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our consumer loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

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

Risks relating to our financial holding company structure and strategy

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

Woori Finance Holdings was established in March 2001 by the KDIC as a financial holding company to consolidate the Korean government s interests in four commercial banks (Hanvit Bank, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea), one merchant bank and a number of other financial institutions. Each of these financial institutions was experiencing significant financial difficulties, including a sharp deterioration in asset quality and capital adequacy ratios and a net capital deficit, as a result of the Korean financial crisis that began in 1997, and had been recapitalized by the Korean government using public funds injected through the KDIC. Since that time, we have reorganized some of those business operations, and we may decide to implement other transfers or reorganizations with respect to our subsidiaries business operations in the future. While we believe that we have generally succeeded in improving our overall financial condition and normalizing our operations, we have a limited operating history as a financial holding company, particularly under our current structure and organization, and may experience difficulties in managing a larger and more diverse business. Accordingly, our continued success cannot be assured.

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

Our success under a financial holding company structure depends on our ability to take advantage of our large existing base of retail and corporate banking customers and to implement a strategy of developing and cross-selling diverse financial products and services to them. As part of this strategy, we are developing an integrated customer relationship management database shared by all of our subsidiaries and are upgrading and integrating our subsidiaries risk management operations and information technology systems, including their accounting and management information systems. We also plan to continue to diversify our product offerings by, among other things, marketing insurance products and expanding our investment banking and investment trust operations. The continued implementation of these plans may require additional investments of capital, infrastructure, human resources and management attention. This strategy entails significant risks, including the possibility that:

- we may fail to successfully integrate our diverse systems and operations;
- we may lack required capital resources;

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

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

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

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

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

Our success under a financial holding company structure depends on our ability to implement our reorganization and integration plan and to realize the anticipated synergies, growth opportunities and cost savings from coordinating and, in certain cases, combining the businesses of our various subsidiaries. As part of this plan, between December 2001 and February 2002 we merged the commercial banking business of Peace Bank of Korea into Woori Bank, converted Peace Bank of Korea into a credit card subsidiary, Woori Credit Card, and transferred the credit card business of Woori Bank to Woori Credit Card. We also transferred the credit card business of Kwangju Bank to Woori Credit Card in March 2003. In addition, we merged Woori Investment Bank with Woori Bank in August 2003, in light of the failure by Woori Investment Bank to meet the financial targets under its memorandum of understanding with the KDIC. 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 are in the process of integrating their risk management operations, as well as their diverse information technology systems (including their accounting and management information systems) and business cultures. As part of our business plan, we have also entered into bancassurance marketing arrangements and may enter into joint venture or acquisition transactions in the future. See Item 4B. Business Overview Other Businesses Bancassurance. For example, we have been selected as one of the two preferred bidders in an auction for the 21.2% controlling voting interest in LG Investment & Securities, a leading domestic securities firm, which is currently held by LG Card, and intend to participate in the bidding for an interest in either Korea Investment & Securities or Daehan Investment & Securities, which were acquired and recapitalized by the KDIC on behalf of the Korean government due to the financial difficulties they were experiencing and are being auctioned by the KDIC. See Item 4B. Business Overview Capital Markets Activities Securities Brokerage and Asset Management Investment Trust Management.

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

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

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

- restrictions under Korean financial holding company and other regulations on transactions between our company and, or among, our subsidiaries;

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unexpected business disruptions;

loss of customers; and

labor unrest.

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

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

An important element of our overall strategy is increasing our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. Historically, our primary source of revenues has been net interest income from our banking operations. To date, except for credit card, trust management and currency transfer fees (including foreign exchange-related commissions), 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 and our bancassurance marketing arrangements. Although we, like many other Korean financial institutions, have begun to charge fees to our customers more regularly, customers may prove unwilling to pay additional fees, even in exchange for more attractive value-added services, and their reluctance to do so would adversely affect the implementation of this aspect of our strategy.

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

We are a financial holding company with no significant assets other than the shares of our subsidiaries. Our primary sources of funding and liquidity are dividends from our subsidiaries, sales of our interests in 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, the successful completion of those sales and our ability to sell our securities or obtain credit from our lenders.

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

In addition, other creditors of our subsidiaries will generally have claims that are prior to any claims of our creditors with respect to their assets. Furthermore, unsuccessful completion of any sales of our interests in our subsidiaries or 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 to 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 semi-annual period;

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

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

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

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

Risks relating to competition

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

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

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

Other risks relating to our business

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet financial and business targets and recapitalization goals on a semi-annual and/or quarterly basis until the end of 2004. See Item 4A. History and Development of the Company History Relationship with the Korean Government. We and our subsidiaries, except for Woori Investment Bank (which was merged with Woori Bank in August 2003), had been in substantial compliance to date under our respective memoranda of understanding with the KDIC. However, as a result of rising credit card delinquency levels in Korea, Woori Credit Card failed to meet certain financial targets as of June 30, September 30 and December 31, 2003. As a result of these failures, the KDIC imposed penalties on Woori Credit Card, including the termination of certain members of its senior management and the reduction of the compensation of certain others. We merged Woori Credit Card with Woori Bank in March 2004. Kwangju Bank and Kyongnam Bank also failed to meet their respective return on assets target as of December 31, 2003, although they met such target as of March 31, 2004. We are currently in negotiations with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding.

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 once again 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 memorandum of understanding may result in harm to our business, financial condition and results of operations.

We sold assets with repurchase obligations held by us to the Korea Asset Management Corporation and provided substantial amounts of 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.

In the past, we have sold significant amounts of non-performing assets to the Korea Asset Management Corporation, which we refer to as KAMCO. Some of those assets were sold with repurchase obligations by us, which means that if specified events occur, KAMCO may require us to repurchase such assets at the original sale price, plus accrued interest. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Sales of Non-Performing Loans Korea Asset Management Corporation. As of December 31, 2003, the aggregate amount of assets we sold to KAMCO that remained subject to such repurchase obligations based on the sales price of those assets to KAMCO was (Won)358 billion. As of that date, we had established allowances of (Won)135 billion in respect of possible losses on those assets. If we are required to repurchase those assets and are unable to make sufficient recoveries on them, we may realize further losses on those assets to the extent such recovery shortfalls exceed our allowances.

We have also provided a significant amount of our 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, 2003, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)2,225 billion. As of that date, we had established allowances of (Won)232 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.

Interest rates in Korea have fluctuated significantly in recent years. In 2000 and 2001, interest rates declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates stabilized at these low levels in 2002 and 2003. Approximately half of the debt securities our banking subsidiaries hold pay interest at a fixed rate. All else being equal, an increase in interest rates would lead to a decline in the value of traded debt securities. A sustained increase in interest rates will also raise our funding costs, while reducing loan demand, especially among consumers. Rising interest rates may therefore require us to re-balance our assets and liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures about Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

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

Our banking subsidiaries meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2003, approximately 88.7% of these deposits had maturities of one year or less or were payable on demand. In the past, a substantial proportion of these customer deposits have been rolled over upon maturity. We cannot guarantee, however, that depositors will continue to roll over their deposits in the future. In particular, we believe that the recent increase in these short-term deposits is attributable in large part to the lack of alternative investment opportunities for individuals and households in Korea, especially in light of the current low interest rate environment and volatile stock market conditions. Accordingly, a substantial number of these short-term deposit customers may withdraw their funds or fail to roll over their deposits if higher-yield investment opportunities emerge. In that event, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance our operations.

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

Most financial institutions in Korea, including our subsidiaries, have experienced periods of labor unrest. As part of our reorganization and integration plan, we have transferred or merged some of the businesses operations of our subsidiaries into one or more entities and implemented other forms of corporate and operational restructuring. We may decide to implement other organizational or operational changes, as well as acquisitions or dispositions, in the future. Such efforts have in the past been met with significant opposition from labor unions in Korea. For example, in July 2000, the Korea Financial Industry Union, which represented the employees of 30 financial institutions, urged its members to participate in a strike to express their opposition to the increase in bank mergers and the promulgation of the Financial Holding Company Act. This strike was motivated by a fear

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that these mergers and the Financial Holding Company Act would lead to large-scale layoffs of financial institution employees. In addition, in June 2003, members of Chohung Bank s labor union went on strike to express their opposition to the proposed sale by the KDIC of its interest in that bank to Shinhan Financial Group. Although we did not experience any major labor disputes in connection with the merger of Woori Credit Card with Woori Bank, 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, 2003, our banking subsidiaries held debt securities issued by Korean companies and financial institutions (other than those issued by government-owned or -controlled enterprises or financial institutions, which include the KDIC, the Korea Electric Power Corporation, the Bank of Korea, the Korea Development Bank and the Industrial Bank of Korea) with a total book value of (Won)6,732 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates, which may be significant in light of the current low interest environment, or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our 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 banking subsidiaries could realize in the event we elect to sell these securities. As a result, our banking subsidiaries may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

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

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum requisite capital ratio, which is the ratio of net total equity capital as a percentage of requisite capital, of 100% on a consolidated Korean GAAP basis. See Item 4. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated Korean GAAP basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the memoranda of understanding among us, our subsidiaries and the KDIC require us and our subsidiaries to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As of December 31, 2003, our capital ratio and the capital adequacy ratios of our subsidiaries (except for Woori Credit Card) exceeded the minimum levels required by both the Financial Supervisory Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

If our capital adequacy ratio or those of our subsidiaries deteriorate, we or they may be required to obtain additional Tier I or Tier II capital in order to remain in compliance with the applicable capital adequacy requirements. As the financial holding company for our subsidiaries, we may be required to raise additional capital to contribute to our subsidiaries. We or our subsidiaries may not be able to obtain additional capital on favorable terms, or at all. The ability of our company and our subsidiaries to obtain additional capital at any time

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may be constrained to the extent that banks or other financial institutions in Korea or from other Asian countries are seeking to raise capital at the same time. Depending on whether we or our subsidiaries are obtaining any necessary additional capital, and the terms and amount of any additional capital obtained, holders of our common stock or ADSs may experience a dilution of their interest, or we may experience a dilution of our interest in our subsidiaries.

Under the new Basel Capital Accord, which is scheduled to take effect after December 2006, credit exposures to small- and medium-sized enterprises with no external ratings will be allocated a risk weighting of 150%, instead of the current 100%. This would increase our banking subsidiaries capital requirements for small- and medium-sized enterprise lending unless they are able to obtain approval for their internal rating models from the Financial Supervisory Service. Although we expect our banking subsidiaries to continue their efforts to improve the accuracy of their internal rating models, they may not be able to obtain the Financial Supervisory Service s approval with respect to such models. If such approval is not obtained, our banking subsidiaries may have to increase their capital to support their small- and medium-sized enterprise lending.

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. Liquidity and Capital Resources Selected Financial Information under Korean GAAP and Reconciliation with Korean GAAP. As a result, our allowance and provision levels, as well as certain other balance sheet and income statement items, reflected in our interim financial statements under Korean GAAP may differ substantially from those required to be reflected under U.S. GAAP.

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

Companies in Korea, including us, are subject to corporate governance standards applicable to Korean public companies which differ in many respects from standards applicable in other countries, including the United States. As a reporting company registered with the Securities and Exchange Commission and listed on the New York Stock Exchange, we are, and in the future will be, 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.

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Risks relating to government control

The KDIC, which is our controlling shareholder, 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 85.9% 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

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

In light of concerns regarding the potential risks of excessive consumer lending, particularly mortgage and home equity lending, the Korean government has in recent years adopted more stringent regulations with respect to consumer lending by Korean banks. The Financial Supervisory Commission increased the minimum loan loss reserve requirements applicable to consumer loans with effect from May 2002. In addition, in an effort to curtail the growth in property speculation caused by increased levels of mortgage and home equity lending, the Financial Supervisory Commission and Financial Supervisory Service adopted measures during 2002 that reduced our ability to provide certain higher-risk mortgage and home equity loans and applied new, more stringent guidelines applicable to mortgage and home equity lending by Korean banks.

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

- building more residential apartments and houses;

- enforcing more stringent supervision of property speculation; and

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

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

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

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

Due to the rapid growth of the credit card market and rising consumer debt levels in Korea in recent years, the Korean government has heightened its regulatory oversight of the credit card industry. In May 2002, the Korean Ministry of Finance and Economy and Financial Supervisory Commission announced that they would encourage credit card issuers to lower their fee rate on cash advances. As a result, cash advance fee rates fell to historically low levels during 2002, although they rebounded in 2003.

In addition, from mid-2002 through early 2003, the Ministry of Finance and Economy and the Financial Supervisory Commission enacted a variety of amendments to existing laws and regulations governing the credit card industry. Among other things, these amendments increased minimum required provisioning levels applicable to credit card receivables, required the reduction in lending volumes for certain types of lending, increased reserve requirements and minimum capital ratios and allowed the imposition of new sanctions against credit card companies that failed to meet applicable requirements. The Financial Supervisory Commission and the Financial Supervisory Service also enacted a number of changes to the rules governing the evaluation and reporting of credit card balances, as well as procedures governing which persons may receive credit cards. For more details relating to these regulations, see Item 4B. Business Overview Supervision and Regulation Credit Card Business.

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

In light of the deteriorating liquidity position of a number of credit card companies in Korea, in March, September and October 2003 the Korean government announced measures intended to support the credit card industry. These include the relaxation or delay in the implementation of some of the new regulatory restrictions applicable to credit card companies, such as restrictions on cash advance fee rates and on the level of cash advance and card loan receivables as a percentage of total receivables. We believe, however, that these relief measures are likely to be temporary, and that the overall effect of the Korean government s recent regulatory initiatives has been, and will continue to be, to constrain the growth and profitability of our credit card operations. Since October 2003, the Financial Supervisory Commission announced that it would:

- revise the calculation formula for capital adequacy ratios for each credit card company in a manner that would increase the proportion of managed assets composing risk-weighted assets;

- change its standards for reporting credit card delinquency ratios to require the inclusion of restructured loans and substituted cash advances in the calculation of such ratios; and

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

Currently, the Financial Supervisory Commission has not implemented any of these announced changes. If the announced changes are adopted, the delinquency ratio reported by credit card companies will increase significantly, which may heighten public concern regarding their financial health and thereby exacerbate their liquidity problems. The Korean government may also adopt further regulatory changes in the future that affect the credit card industry, which in turn may adversely affect our credit card operations.

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

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

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

- requesting credit card companies to effect capital increases in the aggregate amount of (Won)4.6 trillion, as part of their self-rescue efforts;

- requesting banks and other financial institutions to agree to extend the maturity of all debt securities of credit card companies that they hold through June 2003;

- requesting investment trust management companies to agree to extend the maturity of 50% of the aggregate amount of the debt securities of credit card companies held by the investment trusts they manage that are scheduled to mature by June 2003; and

- with respect to the remaining 50% of such credit card company debt securities, requesting banks and other financial institutions to contribute an aggregate amount of (Won)5.6 trillion to mutual funds to enable them to purchase such debt securities from investment trusts.

Of the (Won)5.6 trillion aggregate contribution made by Korean financial institutions to purchase credit card company debt securities held by investment trusts, the portion allocated for Woori Bank, Kyongnam Bank and Kwangju Bank to purchase was approximately (Won)540 billion. In accordance with a schedule agreed upon by us and other Korean financial institutions, we were reimbursed for the full amount of our contribution by the end of July 2003.

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

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

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

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

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

Ongoing significant reforms and changes to the regulatory framework for the Korean financial industry could adversely affect our results of operations.

The legal and regulatory framework for the Korean financial industry is undergoing significant reforms and changes. For example, in the past the Korean government regulated, among other things, lending rates and deposit rates for banks. Regulations also dictated the extent of competition by restricting new entrants and the growth of existing financial institutions, including the opening of new branches. Ongoing regulatory reforms have removed all controls on lending rates and deposit rates (except for the prohibition on interest payments on current account deposits) and have relaxed barriers to entry, including by foreign financial institutions, leading to increased competition. At the same time, the Korean government has revised its regulations in recent years to impose stricter regulatory standards and oversight on Korean financial institutions, as part of its efforts to modernize the industry and to address specific social and economic issues. Most recently, the Korean government has revised the regulations relating to credit cards and household lending as part of its effort to control the potential risks of excessive consumer lending. Continuing regulatory changes in the financial industry will require us to modify our business operations and may adversely affect our results of operations.

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. Beginning in late 1997, Korea experienced a significant financial and economic downturn that resulted in, among other things, an increase in the number and size of companies filing for corporate reorganization and protection from their creditors. As a result of these corporate failures, financial institutions in Korea, including our subsidiaries, experienced a sharp increase in non-performing loans and a deterioration in their capital adequacy ratios.

Although the Korean economy began to experience a recovery in 1999, the pace of the recovery has since slowed and has been volatile. The economic indicators in 2001, 2002 and 2003 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Events related to terrorist attacks in the United States that took place on September 11, 2001, recent

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developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices and the continued weakness of the economy in parts of the world have increased the uncertainty of world economic prospects in general and continue to have an adverse effect on the Korean economy. Any future deterioration of the Korean economy would adversely affect our financial condition and results of operations.

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

- financial problems relating to chaebols, or their suppliers, and their potential adverse impact on Korea s financial sector, including as a result of recent investigations relating to unlawful political contributions by chaebols;
- failure of restructuring of large troubled companies, including LG Card and other troubled credit card companies and financial institutions;
- increasing delinquencies and credit defaults by consumer and small- and medium-sized enterprise borrowers;
- volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including depreciation of the U.S. dollar or Japanese yen), interest rates and stock markets;
- increased reliance on exports to service foreign currency debts, which could cause friction with Korea s trading partners;
- adverse developments in the economies of countries such as the United States, China and Japan to which Korea exports, or in emerging market economies in Asia or elsewhere that could result in a loss of confidence in the Korean economy;
- social and labor unrest or declining consumer confidence or spending resulting from lay-offs, increasing unemployment and lower levels of income;
- a decrease in tax revenues and a substantial increase in the Korean government s expenditures for unemployment compensation and other social programs that, together, lead to an increased government budget deficit;
- political uncertainty or increasing strife among or within political parties in Korea, including as a result of the increasing polarization of the positions of the ruling progressive party and the conservative opposition; and
- a deterioration in economic or diplomatic relations between Korea and its trading partners or allies, including such deterioration resulting from trade disputes or disagreements in foreign policy.

Tensions with North Korea could have an adverse effect on us and the price of our common stock and ADSs.

Relations between Korea and North Korea have been tense over most of Korea s history. The level of tension between the two Koreas has fluctuated and may increase or change abruptly as a result of current and future events, including ongoing contacts at the highest levels of the governments of Korea and North Korea and increasing hostility between North Korea and the United States. 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, and has reportedly resumed activity at its Yongbyon power plant. In January 2003, North Korea announced its intention to withdraw from the Nuclear Non-Proliferation Treaty, demanding that the United States sign a non-aggression pact as a condition to North Korea dismantling its nuclear program. In August 2003, representatives of Korea, the United States, North Korea, China, Japan and Russia held multilateral talks in an effort to resolve issues relating to North Korea s nuclear weapons program. While the talks concluded without resolution, participants in the August meeting indicated that further negotiations may take place in the future and, in February 2004, six party talks resumed in China. Any further increase in tensions, resulting for example from a break-down in contacts or an outbreak in military hostilities, could hurt our business, results of operations and financial condition and could lead to a decline in the price of our common stock and ADSs.

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Labor unrest in Korea may adversely affect our operations.

The economic downturn in Korea in 1997 and 1998 and the increase in the number of corporate reorganizations and bankruptcies thereafter caused layoffs and increasing unemployment in Korea, and a similar economic downturn in the future could lead to further layoffs. These factors could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. During 1998 and 1999, there were large-scale protests and labor strikes in Korea. According to statistics from the Bank of Korea, the unemployment rate generally decreased from 4.1% in 2000 to 3.1% in 2002, but increased to 3.4% in 2003 and 3.8% in the first quarter of 2004. A continued increase in unemployment and continuing or future labor unrest 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 conditions of Korean companies in general, depressing the price of securities on the Korea Stock Exchange and the value of the Won relative to other currencies. These developments would likely have an adverse effect on our financial condition and results of operations.

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

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

Risks relating to our common stock and ADSs

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

The KDIC currently owns 673,458,609 shares, or 85.9%, 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. Under the Financial Holding Company Act, the KDIC is required to dispose of all of its holdings of our common stock by March 2005.

According to the latest privatization plans announced by the KDIC in January 2004, the KDIC will seek to dispose of all of its holdings of our common stock by March 2005 through overseas offerings, sales to strategic investors, block sales and other available means, in a manner consistent with its mandate from the Public Fund Oversight Committee of the Korean government to maximize its returns and contribute to the development of the Korean financial industry in connection with such disposal. However, such plans are subject to change depending on market conditions and other factors. Accordingly, we do not know when, how or what percentage of our shares owned by the KDIC will be disposed of, or to whom such shares will be sold. As a result, we cannot predict the impact of such sales on us or our stock prices. Any future sales of our common stock or ADSs in the public market or otherwise by the KDIC, or the possibility that such sales may occur, could depress the prevailing market prices of our common stock and ADSs.

Ownership of our common stock is restricted under Korean law.

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

A holder of our ADSs will not be able to exercise dissent and appraisal rights unless it has 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, holders of our ADSs will not be able to exercise such dissent and appraisal rights if the depositary refuses to do so on their 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.

A holder of our ADSs may be limited in its 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 a holder surrenders ADSs and withdraws common stock, it may not be able to deposit the stock again to obtain ADSs. See Item 10D. Exchange Controls Restrictions Applicable to Shares.

A holder of our ADSs 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, a holder of our ADSs may be unable to participate in our rights offerings and may experience dilution in its holdings. If a registration statement is required for a holder of our ADSs to exercise preemptive rights but is not filed by us or is not declared effective, the holder will not be able to exercise its preemptive rights for additional ADSs and it will suffer dilution of its 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 the holder will receive no value for these rights.

Dividend payments to a holder of our ADSs and the amount it may realize upon a sale of its 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 Korea Stock 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 a holder of our ADSs will receive from the depositary in respect of dividends, the U.S. dollar value of the proceeds that it 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 average Won/U.S. dollar exchange rate, as measured by the noon buying rate, was (Won)1,140.0 to $1.00 in 2000, (Won)1,293.4 to $1.00 in 2001, (Won)1,242.0 to $1.00 in 2002 and (Won)1,192.0 to $1.00 in 2003. The Won/U.S. dollar rate as of June 28, 2004 was (Won)1,153.0 to $1.00.

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

Our common stock is listed on the Korea Stock Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the Korea Stock Exchange. The Korea Stock Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the Korea Stock Exchange has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 1138.75 in 1994 and subsequently fell to a low of 280.00 in 1998. On April 17, 2000, the KOSPI experienced a 93.17 point drop, which represented the single largest decrease in the history of the KOSPI. On June 28, 2004, the KOSPI closed at 770.95. Like other securities markets, including those in developed countries, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

The Korean government has the potential ability to exert substantial influence over many aspects of the private sector business community, and in the past has exerted that influence from time to time. For example, the Korean government has induced mergers to reduce what it considers excess capacity in a particular industry and has also induced private companies to publicly offer their securities. Similar actions in the future could have the effect of depressing or boosting the Korean securities market, whether or not intended to do so. Accordingly,

actions by the government, or the perception that such actions are taking place, may take place or has ceased, may cause sudden movements in the market prices of the securities of Korean companies in the future, which may affect the market price and liquidity of our common stock and ADSs.

If the Korean government deems that emergency circumstances are likely to occur, it may restrict holders of our ADSs 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.

Other Risks

A holder of our ADSs 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 document reside in Korea, and all or a significant portion of the assets of our directors and officers and other persons named in this document and substantially all of our assets are located in Korea. As a result, it may not be possible for holders of our ADSs 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.

History

History of the Korean Economy Since 1997

We have obtained the following information from publicly available sources, including information from the Korean government:

In 1997 and 1998, a number of developments described below adversely affected the Korean economy. Korean companies, including the conglomerates known as chaebols that dominate the Korean economy, banks

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and other financial institutions struggled financially, and a significant number of them failed. Factors that contributed to the financial difficulties included excessive investment by Korean companies and high levels of debt, including debt denominated in foreign currencies, incurred by Korean companies. The economic difficulties of certain Southeast Asian countries beginning in 1997 also contributed to Korea s problems. During this period, the Republic experienced significant depreciation of the Won, increases in interest rates, volatile stock prices, as well as reductions in its foreign currency reserves and reduced liquidity in the economy. Reflecting these factors, in 1998, GDP contracted by 6.9% at constant market prices, the inflation rate rose to 7.5% from 4.4% in 1997 and the unemployment rate rose to 7.0% from 2.6% in 1997.

However, the Korean economy recovered after 1998 and achieved an increase in GDP of 9.5% in 1999 at constant market prices. In addition, the Republic recorded a trade surplus of US$23.9 billion in 1999 as the Republic s economic recovery led to a 28.4% increase in imports and a 8.6% increase in exports. The Republic recorded GDP growth of 8.5% and a trade surplus of US$11.8 billion in 2000, GDP growth of 3.8% and a trade surplus of US$9.3 billion in 2001 and GDP growth of 7.0% and a trade surplus of US$10.3 billion in 2002. At the same time, inflation has been managed at relatively low levels of 0.8% in 1999, 2.3% in 2000, 4.1% in 2001 and 2.7% in 2002. Moreover, the unemployment rate has continued to decrease in each year since 1998, to 6.3% in 1999, 4.1% in 2000, 3.8% in 2001 and 3.1% in 2002. Based on preliminary data, the Republic s GDP grew approximately 3.1% in 2003. The Republic recorded a trade surplus of US$15.0 billion in 2003. In 2003, the inflation rate was 3.6% and the unemployment rate was 3.4%.

The following table sets forth information regarding certain of the Republic s key economic indicators for the periods indicated.

	As of or for the year ended December 31,						
	1997	1998	1999	2000	2001	2002	2003
	(in billions of US$ and trillions of Won, except percentages)						
GDP Growth [1]	4.7%	(6.9)%	9.5%	8.5%	3.8%	7.0%	3.1%
Inflation	4.4%	7.5%	0.8%	2.3%	4.1%	2.7%	3.6%
Unemployment [2]	2.6%	7.0%	6.3%	4.1%	3.8%	3.1%	3.4%
Trade Surplus	$ (8.5)	$ 39.0	$ 23.9	$ 11.8	$ 9.3	$ 10.3	$ 15.0
Foreign Currency Reserves	$ 20.4	$ 52.0	$ 74.1	$ 96.2	$ 102.8	$ 121.4	$ 155.4
External Liabilities	$ 159.2	$ 148.7	$ 137.1	$ 131.7	$ 118.8	$ 131.0	N/A[3]
Fiscal Balance	(Won) (7.0)	(Won) (18.8)	(Won) (13.1)	(Won) 6.5	(Won) 7.3	(Won) 22.7	(Won) 8.1

(1) At constant market prices.
(2) Average for the annual period indicated.
(3) Not available.

Source: *Monthly Bulletin*, March 2004; The Bank of Korea.

For additional information regarding the status of the Korean economy and Korean financial institutions, see Item 5A. Operating Results Overview The Korean Economy and Business The Korean Financial Industry.

Financial Condition of Korean Companies. Beginning in early 1997, a significant number of Korean companies, including member companies of chaebol groups, experienced financial difficulties due to excessive investment in some industries, weak export prices and high levels of debt and foreign currency exposure. In addition, the widespread practice of cross guarantees among member companies of chaebols meant that the difficulties of financially weaker companies threatened the financially stronger companies as well. The reluctance and reduced ability of banks to renew or extend additional credit exacerbated these problems. 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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The Korean government and the private sector have worked together to implement major reforms in the corporate sector. As part of the corporate sector response to the financial crisis, all forms of mergers and acquisitions, including hostile takeovers, were liberalized in May 1998. The government also required each of the 64 largest chaebol groups to agree upon capital structure improvement plans with its lead creditor banks in 1998. These plans specified annual debt to equity ratio targets for each chaebol, identified its core business area and established divestiture plans for companies outside its core business areas.

As a result, the average numbers of affiliates of chaebol groups decreased significantly since 1997 and the debt to equity ratio of listed companies, excluding financial institutions, improved significantly from 271.4% at the end of 1997 to 128.0% at the end of 2001. In addition, laws and regulations progressively limiting, and eventually eliminating, the provision of cross guarantees among chaebol affiliates were implemented.

Financial Condition of Korean Banks and Other Financial Institutions. The capital adequacy and liquidity of most Korean banks and other financial institutions have been adversely affected by the financial difficulties of corporate borrowers, high levels of short-term foreign currency borrowings from foreign financial institutions and the consideration of non-market oriented factors in making lending decisions.

The Korean government in late 1997 and 1998 ordered the closing of many of the worst affected financial institutions. In addition, the government became the controlling shareholder of four large commercial banks, Seoul Bank, Korea First Bank, Woori Bank and Chohung Bank, by recapitalizing them. In December 1999, the government sold a controlling interest in Korea First Bank to Newbridge Capital, and subsequently, the government extended an invitation to domestic and foreign financial institutions to bid for and acquire Seoul Bank. The government selected Hana Bank as the acquirer and the Hana Bank-Seoul Bank merger was consummated in December 2002. The newly merged entity formed the Republic s third largest commercial bank in terms of total assets. In January 2003, Shinhan Financial Group Co., Ltd. was selected by the Public Fund Oversight Committee as the preferred bidder with respect to the sale of the Chohung Bank shares owned by the government. In July 2003, the government agreed to sell a controlling interest in Chohung Bank to Shinhan Financial Group and in August 2003, Shinhan Financial Group completed its acquisition of the Chohung Bank shares. In August 2003, Lone Star Funds, an investment firm based in the United States, agreed to buy a 51% stake in Korea Exchange Bank for approximately (Won)1.4 trillion. In October 2003, Lone Star Funds completed its (Won)1.07 trillion payment for new common shares of Korea Exchange Bank. Lone Star Funds paid an additional (Won)308.3 billion to acquire existing shares of Korea Exchange Bank held by each of Commerzbank, formerly Korea Exchange Bank s largest shareholder, and the Export-Import Bank of Korea. In May 2004, an affiliate of Citibank completed a tender offer pursuant to which it purchased a majority interest in Koram Bank.

Furthermore, to enhance the competitiveness of the Republic s financial institutions, the Korean government passed a law in October 2000 permitting the establishment of financial holding companies. See Establishment of Woori Finance Holdings Formation of Financial Holding Company below. Korean banks have also pursued mergers and acquisitions.

The Korean government estimates that, as of December 31, 2002, banks and non-bank financial institutions held non-performing assets (defined to include loans and other credits on which interest had not been paid for at least three months) totaling approximately (Won)31.8 trillion, compared to (Won)39.1 trillion as of December 31, 2001. By December 31, 2003, the Non-Performing Asset Management Fund managed by KAMCO had purchased approximately (Won)110.3 trillion in principal amount of non-performing assets from financial institutions for (Won)39.8 trillion. The fund uses cash and three- to five-year government-guaranteed notes to pay for its acquisitions.

In recent years, credit card usage and consumer debt have increased substantially in Korea. These increases have recently been accompanied by a significant increase in the rate of delinquencies. The average delinquency ratio among the Republic s eight credit card companies rose to 14.1% as of December 31, 2003 from 5.8% as of December 31, 2001. These events have adversely affected credit card companies ability to raise funds. To

stabilize the over-leveraged credit card industry, the Korean government has proposed an emergency package which would entail banks and other companies with credit card businesses making significant capital injections into their respective credit card affiliates.

Interest Rate Fluctuations. Due to adverse economic conditions, the depreciation of the Won and the Korean government s reform policy, interest rates payable by Korean borrowers increased substantially, both domestically and internationally, in late 1997 and 1998. The average annual interest rate on three-year Won-denominated, non-guaranteed corporate bonds rose from 12.6% as of September 30, 1997 to 29.0% as of December 31, 1997. Since the fourth quarter of 1998, interest rates have fallen significantly, primarily driven by improved economic conditions and The Bank of Korea interest rate policy. The average interest rate on three-year Won-denominated, non-guaranteed corporate bonds fell to 6.5% as of December 23, 2003. Internationally, the spreads over United States treasury bonds on benchmark dollar-denominated bonds issued by the Republic and Korean financial institutions and companies have improved since the second half of 1998. If interest rates were to rise significantly in the future, the debt service costs of Korean borrowers and the possibility of defaults on debt repayments may increase.

Exchange Rate Fluctuations. Due to adverse economic conditions and reduced liquidity, the value of the Won relative to the U.S. dollar and other major foreign currencies declined substantially in 1997 but generally rose in 1998. Because of market pressure, in December 1997, the Korean government allowed the Won to float freely. The market average exchange rate as announced by the Seoul Money Brokerage Services Ltd. (formerly the Korea Financial Telecommunications and Clearings Institute) was (Won)1,415.2 to US$1.00 on December 31, 1997, compared to (Won)914.8 to US$1.00 on September 30, 1997. The Won s sharp depreciation resulted from, among other things, significant demand for U.S. dollars and other major foreign currencies by Korean financial institutions and companies to repay their foreign currency debts, deteriorating foreign currency holdings of the Republic s financial institutions, credit rating downgrades experienced by the Republic and Korean financial institutions and corporations, as well as other external factors, including currency turmoil in Southeast Asian countries.

Due to improved economic conditions and continued trade surpluses, the Won has generally appreciated against the U.S. dollar since the end of 1997, and as of June 28, 2004, the market average exchange rate was (Won)1,153.0 to US$1.00.

Won depreciation increases substantially the amount of Won revenue needed by Korean companies to repay foreign currency-denominated debt, increases the possibility of defaults and results in higher prices for imports, including key raw materials such as oil, sugar and flour. On the other hand, Won appreciation generally has an adverse effect on exports by Korean companies.

Stock Market Volatility. The Korea Composite Stock Price Index declined by over 56% from 647.1 on September 30, 1997 to 280.0 on June 16, 1998. The index recovered to 770.95 on June 28, 2004, which represented an increase of 175.3% since June 16, 1998. Significant sales of Korean securities by foreign investors and the repatriation of the sales proceeds could drive down the value of the Won, reduce the foreign currency reserves held by financial institutions in the Republic and hinder the ability of Korean companies to raise capital.

Reform Efforts. In response to the economic difficulties experienced in 1997, the Korean government implemented a range of measures to restore the confidence of financial market participants in Korea by strengthening the country s economic fundamentals.

The Korean government focused its reform measures on restructuring the country s financial sector.

To help address the country s liquidity crisis and its generally difficult economic situation, the Korean government sought assistance from the International Monetary Fund, or IMF, in November 1997 and reached agreement with the IMF on an aid package in December 1997. The aid package called for the Republic to receive

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loans totaling US$58 billion from the IMF, the World Bank, the Asian Development Bank, or ADB, and the governments of certain countries, subject to compliance with several conditions. The loans helped to increase the Republic s foreign currency reserves and support the Republic s banking sector.

Korea had repaid all of the amounts borrowed from the IMF by August 2001, approximately three years ahead of schedule. As to the amounts borrowed from the World Bank and the ADB, US$4.8 billion and US$1.7 billion, respectively, were still outstanding as of December 31, 2003.

Since 1998, the Korean government has implemented comprehensive programs for economic reform and recovery aimed at rectifying the causes of the economic and financial difficulties experienced in 1997 and 1998, including:

Financial Support for Financial Institutions. To support troubled financial institutions, the National Assembly in December 1997 authorized guarantees of up to US$20 billion of external debt of Korean banks, and in January 1998, additional guarantees of up to US$7 billion of external debt of Korean commercial and merchant banks and up to US$8 billion of external debt of The Bank of Korea. The Korean government used the guarantees to help Korean financial institutions with their short-term foreign currency debt, in the form of loans guaranteed by the government used to replace short-term foreign currency obligations. The Korean financial institution obligors of the new loans paid fees to the government in return for the guarantees. All of the loans have since been repaid.

Legislation. In connection with restructuring the financial sector of the Republic, various measures have been adopted through legislation by the National Assembly. See Item 4B. Business Overview Supervision and Regulation.

Restructuring and Recapitalizing the Financial Institutions Sector. Since December 1997, the Korean government has been restructuring and recapitalizing troubled financial institutions, including closing insolvent financial institutions and those failing to carry out rehabilitation plans within specified periods. See Establishment of Woori Finance Holdings, Relationship with the Korean Government and Item 4B. Business Overview Supervision and Regulation.

Establishment of Woori Finance Holdings

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

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

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

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

The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC in two parts. The first part of this recapitalization would comprise capital injections of approximately (Won)3.5 trillion, in return for new shares of the relevant banks, to eliminate their capital deficits, while the second part would comprise further capital contributions of approximately (Won)2.6 trillion, without consideration, to increase their capital adequacy ratios to more than 10%. Accordingly, trading of shares of these four commercial banks was suspended in December 2000, and the capital of each was written down to zero after each bank purchased outstanding shares from the then-existing dissenting minority shareholders. On December 22, 2000, the Korean government and the labor unions of the four commercial banks entered into an agreement under which the labor unions consented to a plan to include their respective banks as subsidiaries of a state-run financial holding company that would have full management rights to oversee the restructuring of those banks.

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

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

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

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

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

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

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

Relationship with the Korean Government

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

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 their operations with Woori Bank in order to unify 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 fully implement restructuring measures or 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. In March 2004, we merged Woori Credit Card with Woori Bank.

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 on January 24, 2003. On May 28, 2003, Woori Credit Card entered into a similar business normalization plan with the KDIC. 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

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order us to take remedial measures against each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank, with whom we entered into separate memoranda of understanding. See Memoranda of Understanding with Our Subsidiaries.

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

The business plan included in the memorandum of understanding, which we prepared and which the KDIC approved, set forth the basis on which we were to manage the normalization and integration of our subsidiaries operations and to return the public funds that were injected into them. The business plan also set financial targets for our capital ratio, return on total assets, expense-to-revenue ratio, operating income per employee, non-performing loan ratio and holding company expense ratio for 2001 and 2002. We were required to meet these financial targets on a semi-annual basis. The memorandum of understanding will terminate once the KDIC loses its status as our largest shareholder.

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 on January 24, 2003. 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, such as establishing a fee structure for services provided by Woori Bank on behalf of Woori Credit Card.

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

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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 2001 and 2002 that were to be met by Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank were identical to those imposed by the KDIC on those subsidiaries.

Recent Developments with the KDIC. On January 24, 2003, we and our subsidiaries (with the exception of Woori Investment Bank and Woori Credit Card) entered into a new two-year business normalization plan with the KDIC that included new restructuring measures and financial targets. On May 28, 2003, Woori Credit Card entered into a similar business normalization plan that included restructuring measures and financial targets. The other terms of the previously agreed memoranda of understanding remain unchanged.

The 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 2003 and 2004 that we are required to meet on a consolidated Korean GAAP basis. Our current consolidated Korean GAAP targets for each six-month period in 2003 and 2004 are set forth in the following table:

	Six-month period ended			
	2003		2004	
	June	December	June	December
	(in billions of Won, except percentages)			
Requisite capital ratio [1]	105.0%	105.0%	105.0%	110.0%
Return on total assets [2]	0.6	0.8	0.9	1.0
Expense-to-revenue ratio [3]	48.5	46.5	44.5	43.0
Operating income per employee [4]	(Won) 2.9	(Won) 3.0	(Won) 3.5	(Won) 3.6
Non-performing loan ratio [5]	2.9%	2.7%	2.4%	2.2%
Holding company expense ratio [6]	0.9	0.9	0.9	0.9

(1) For a description of how the requisite capital ratio is calculated, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.
(2) Represents the ratio of net income to total assets.
(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income before loan loss provisions and general and administrative expenses.
(4) Represents the ratio of adjusted operating income to total number of employees.
(5) Represents the ratio of total credits classified as substandard or below to total credits.
(6) Represents the ratio of the holding company s expenses to adjusted operating income of its subsidiaries.

Each of Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Credit Card 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 (other than Woori Credit Card, which was merged with Woori Bank in March 2004) 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.

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. We are currently in negotiations with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding.

Reorganization and Integration Plan

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

- We restructured Peace Bank of Korea from December 2001 through February 2002 by:
  - splitting off its commercial banking operations and merging them into Woori Bank;
  - changing the name of Peace Bank of Korea to Woori Credit Card; and
  - transferring the credit card operations of Woori Bank to Woori Credit Card. In connection with this transfer, Woori Credit Card acquired all of the existing credit card accounts of Woori Bank but none of the outstanding receivables with respect to such accounts, which remained with Woori Bank.
- In March 2002, we made Woori Investment Trust Management a direct subsidiary by acquiring all of its outstanding capital stock from Woori Bank.
- In July 2002, we made Woori Securities a direct subsidiary by acquiring a majority of its outstanding capital stock from Woori Bank.
- In March 2003, we transferred the credit card operations of Kwangju Bank to Woori Credit Card.
- In August 2003, we merged Woori Investment Bank with Woori Bank by exchanging Woori Investment Bank s shares with shares of Woori Bank.
- In March 2004, we merged Woori Credit Card with Woori Bank. In connection with this merger, Woori Credit Card spun off and transferred to Kwangju Bank all of the existing credit card accounts (but none of the outstanding receivables with respect to such accounts) that Woori Credit Card had previously acquired from Kwangju Bank.
- We acquired the 47.3% interest in Woori Securities that we did not own prior to such acquisition in June 2004, and plan to delist it from the Korea Stock Exchange in July 2004.

From April 2002, we have also commenced a business process re-engineering project with respect to our commercial banking operations. The aim of the project is to streamline our banking operations and increase their efficiency by concentrating our credit evaluation and approval processes, foreign exchange operations and back-office functions within the head office or regional centers, instead of maintaining them at the branch level. We believe that this project will result in significant cost savings through the elimination of redundant functions, as well as allow our branch personnel to focus their efforts on marketing and sales instead of administrative tasks. We completed this business process re-engineering project with respect to substantially all of Woori Bank s branch network in June 2003 and have begun to implement it with respect to the branches of Kyongnam Bank and Kwangju Bank in the first half of 2004.

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

In 2002, we standardized the logo of certain of our subsidiaries, including Woori Bank, Woori Securities and Woori Investment Trust Management, and are in the process of doing the same with respect to Kyongnam Bank and Kwangju Bank to associate them with the Woori brand, while enabling them to maintain their regional identity.

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

In 2005, we expect to complete development of an integrated customer relationship management database shared by all of our subsidiaries and to establish a synergy marketing team to coordinate our marketing efforts.

We are also in the process of integrating our information technology systems through our subsidiary, Woori Finance Information System. As part of this process, we are creating a group-wide integrated management information system and upgrading and conforming the risk management systems of all of our subsidiaries. We expect to complete this integration process after we complete integration of our accounting and management information systems, which we expect will occur in 2005.

In addition, we have been selected as one of the two preferred bidders in an auction for the 21.2% controlling voting interest in LG Investment & Securities, a leading domestic securities firm, which is currently held by LG Card, and intend to participate in the bidding for an interest in either Korea Investment & Securities or Daehan Investment & Securities, which were acquired and recapitalized by the KDIC on behalf of the Korean government due to the financial difficulties they were experiencing, and are being auctioned by the KDIC. See Item 4B. Business Overview Capital Markets Activities Securities Brokerage and Asset Management Investment Trust Management.

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), deposits and the number of branches as of December 31, 2003. 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, 2003, we had consolidated total assets of (Won)127.6 trillion, consolidated total deposits of (Won)89.0 trillion and consolidated stockholders equity of (Won)3.7 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government s interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Over the past three years, we have succeeded in restructuring our operations by: securing a solid capital base for our banking subsidiaries; improving the quality of our exposure to and our relationships in the large corporate sector; refocusing our lending activities on individual and small- and medium-sized enterprise customers to take advantage of our network of over 900 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our approximately 13 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.

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(1) We completed the acquisition of the remaining ownership interest in June 2004.

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

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

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

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

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

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

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

Strong and long standing relationships with corporate customers. Historically the operations of Woori Bank, our largest subsidiary, concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea s leading corporate groups, and we are the main creditor bank to 11 of the 25 largest Korean corporations. Further enhancing our corporate loan portfolio is our growing ability to lend to small- and medium-sized enterprises, with a total of more than 157,000 small- and medium-sized enterprise borrowers as of December 31, 2003.

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 approximately 17 million retail customers, representing about one-third of the Korean adult population. Of these customers, approximately two-thirds 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. Currently, our retail customers only use an average of 1.85 of our products, as compared to average customer use of 3.0 to 5.0 products for the best consumer banking institutions in Europe or the U.S. We therefore believe that our large and loyal retail customer base presents significant potential revenue opportunities for us.

Extensive distribution and marketing network. We serve our customers primarily through the third largest banking network in Korea, comprising over 900 branches and 7,000 ATMs and cash dispensers. Through Woori Bank, we also operate 17 dedicated corporate marketing centers and approximately 110 relationship managers for our large corporate customers and approximately 540 relationship professionals stationed at over 440 branches for our small- and medium-sized enterprise customers. In addition, we have constructed new Internet and mobile banking platforms to enhance customer convenience, reduce service delivery costs and allow our branch staff to focus on marketing and sales. In 2003, our Internet banking service was awarded the Minister of Information and Communications Award for the best e-commerce service in Korea.

Strong capital base. On a Korean GAAP basis, as of March 31, 2004, our consolidated stockholders equity totaled (Won)6.1 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 11.4%, which was the highest among all Korean banks. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

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

Strategy

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

Maintain 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. In September 2002, we entered into a joint venture arrangement with Lehman Brothers Holdings Inc. to facilitate the disposal of our substandard or below loans. As a result of these various initiatives, our ratio of non-performing loans to total loans decreased from 9.8% at December 31, 2001 to 2.9% as of December 31, 2003.

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

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

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

Corporate customers: We continuously and vigorously review our portfolio of corporate and small- and medium-sized enterprise customers to refine our data base 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.

In 2004, we began to develop a group-wide integrated customer relationship management database to be shared by all of our subsidiaries and to establish a synergy marketing team to coordinate our marketing efforts among our subsidiaries, which we expect to complete by the end of 2005. We believe our integrated and targeted marketing approach will not only increase our wallet share of our existing customers and allow us to attract new customers, but more importantly, enhances our customer profitability.

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

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

Enhance operational efficiencies to further reduce costs. We intend to improve our operational efficiency and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost distribution channels. As part of our business integration plan, we are in the process of integrating the risk management operations and information technology systems of Kyongnam Bank and Kwangju Bank with those of Woori Bank. Credit evaluation and approval processes, foreign exchange operations and back-office functions at Woori Bank were removed from branches and centralized at the head office or regional centers in 2003 in order to reduce cost and free up branch staff for marketing. Similar back office centralization projects began at Kyongnam Bank and Kwangju Bank in the first half of 2004 and are expected to be completed by the end of 2005.

The integration of our information technology systems through Woori Finance Information System, scheduled to be completed in 2005, will allow us to further eliminate redundant functions and equipment and reducing our long-term expense. In addition, we are continuing our efforts to reduce procurement costs by coordinating and combining procurement activities among our subsidiaries. We believe the completion of the above integration, centralization and procurement projects together with our effort to encourage migration of our mass market customers to low-cost alternative channels will reduce our costs and enhance our operating efficiencies meaningfully.

Strengthen group-wide infrastructure and management. We plan to continue to strengthen our group-wide infrastructure and management by the integration of our information technology systems at our subsidiary, Woori Finance Information System, by 2005, including through the creation of a group-wide integrated management information system. We believe that this system will allow our management to access group-wide financial and operating data on a real-time basis and thereby lead to enhanced coordination within and across our business.

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

Corporate Banking

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

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

	As of December 31,					
	2001		2002		2003	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)					
Loans:						
Small- and medium-sized enterprise	(Won) 21,197	34.7%	(Won) 31,560	39.4%	(Won) 38,831	43.9%
Large corporate	13,872	22.7	13,073	16.3	11,982	13.6
Others [(1)]	5,486	9.0	3,289	4.1	3,148	3.6
Total	(Won) 40,555	66.4%	(Won) 47,922	59.8%	(Won) 53,960	61.1%
Deposits:						
Small- and medium-sized enterprise	(Won) 6,868	9.9%	(Won) 8,165	10.4%	(Won) 11,186	12.5%
Large corporate	10,580	15.3	10,287	13.1	16,788	18.9
Total	(Won) 17,448	25.2%	(Won) 18,452	23.5%	(Won) 27,974	31.4%
Number of borrowers:						
Small- and medium-sized enterprise	131,818		154,601		157,902	
Large corporate	981		864		555	

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

Corporate loans we provide consist principally of the following:

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

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

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

Small- and Medium-Sized Enterprise Banking

Small- and medium-sized enterprises generally comprise those companies and personal businesses that we do not classify as large corporate customers. Under the Small and Medium Industry Basic Act of Korea, the general criteria used to define small- and medium-sized enterprises is number of full-time employees (less than 300), paid-in capital (not more than (Won)8 billion) or sales revenues (not more than (Won)30 billion), depending on the industry, but in each case the number of full-time employees must be less than 1,000. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As a result of our efforts to target this growing market segment, our loan exposure to small- and medium-sized enterprises has increased from 44.3% of our total corporate loans as of December 31, 2000 to 72.0% as of December 31, 2003. As of December 31, 2003, 30.9% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 15.1% were extended to borrowers in the retail and wholesale industry and 10.8% were extended to borrowers in the hotel and transportation industry.

We service our small- and medium-sized enterprise customers primarily through Woori Bank s network of branches and small- and medium-sized enterprise relationship professionals, as well as through the branches and headquarters of Kyongnam Bank and Kwangju Bank. As of December 31, 2003, Woori Bank had stationed one or more relationship professionals at 442 branches, of which 321 were located in the Seoul metropolitan area. Of these 442 branches, 59 were designated as small- and medium-sized enterprise support branches and staffed with more senior relationship professionals. The relationship professionals specialize in servicing the banking needs of small- and medium-sized enterprise customers and concentrate their marketing efforts on developing new customers in this segment. As of December 31, 2003, Woori Bank had a total of 544 small- and medium-sized enterprise relationship professionals stationed at its branches.

In addition to increasing our dedicated staffing and branches, our strategy for this banking segment is to identify promising industry sectors and to develop and market products and services targeted towards customers in these sectors. For example, in 2003, we identified information technology, education services, sports and leisure and retail distribution as promising industries and developed loan products for small- and medium-sized enterprises 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.

Since 2002, the industry-wide delinquency ratios for loans and other credits to small- and medium-sized enterprises have been rising. According to data compiled by the Financial Supervisory Service, the delinquency ratio for loans by Korean banks to small- and medium-sized enterprises was 2.1% as of December 31, 2003. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are over due by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans on a Korean GAAP basis increased from 1.5% as of December 31, 2001 to 2.2% as of December 31, 2003 and to 2.7% as of March 31, 2004 and may rise further in 2004. On a Korean GAAP basis, we charged off (Won)267 billion of our loans to small- and medium-sized enterprises in 2003. In order to stem rising delinquencies, we decided to restrict further lending to small- and medium-sized enterprises in certain industry sectors, such as real property leasing companies and hotels and restaurants, commencing in mid-2003 and implemented measures in 2003 and

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2004 to limit the loan approval authority of branch managers based on the credit performance of the small- and medium-sized industry loans provided by their branches. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our credit exposure 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, 2003, working capital loans and facilities loans accounted for 81.1% and 10.8%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2003, we had a total of more than 157,000 small- and medium-sized enterprise borrowers.

As of December 31, 2003, secured loans and loans guaranteed by a third party accounted for 64.0% and 14.5%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2003, approximately 63.1% of the secured loans were secured by real estate and 10.1% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of ten years.

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

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

Pricing. We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. At Woori Bank, lending rates are generally determined using our automated HAVICS system, which we plan to implement at our other commercial banking subsidiaries after we complete the integration of our accounting and management information systems, which we expect will occur in 2005. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Analysis 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, 2003, substantially all of our large corporate loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

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

In terms of our outstanding loan balance, as of December 31, 2003, 57.8% of our large corporate loans were extended to borrowers in the manufacturing industry, 13.6% were extended to borrowers in the retail and wholesale industry and 10.6% were extended to borrowers in the hotel and transportation industry.

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We service our large corporate customers primarily through Woori Bank s network of dedicated corporate marketing centers and relationship managers. Woori Bank operates 17 corporate marketing centers, 13 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, 2003, Woori Bank had a total of 112 relationship managers who focus on marketing to and managing the accounts of large corporate customers.

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

Lending Activities. We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2003, working capital loans and facilities loans accounted for 35.0% and 8.6%, 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, 2003, secured loans and loans guaranteed by a third party accounted for 21.8% and 39.5%, respectively, of our large corporate loans. Since a relatively low percentage of our large corporate loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing or impaired. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. As of December 31, 2003, approximately 60.2% of the secured loans were secured by real estate and approximately 12.6% 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 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 Lending Activities.

Pricing. We determine the pricing of our loans to corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Pricing. As of December 31, 2003, substantially all of these loans had interest rates that varied with reference to current market interest rates.

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

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

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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 plan to differentiate our products, services and service delivery channels with respect to these segments, making use of a new integrated customer relationship management database and group synergy marketing task force, which we plan to develop in 2004, to 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,					
	2001		2002		2003	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentage)					
General purpose household loans [1]	(Won) 8,237	13.5%	(Won) 11,733	14.6%	(Won) 12,765	14.4%
Mortgage and home equity loans	6,936	11.4	14,033	17.5	17,592	19.9
Total	(Won) 15,173	24.9%	(Won) 25,766	32.1%	(Won) 30,357	34.4%

(1) Excludes home equity loans.

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). These 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.

- *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.

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For secured loans, including mortgage and home equity loans, we generally lend up to 50% of the collateral value (except in areas of high speculation designated by the government where we are required to limit our lending to 40% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate, we generally use the appraisal value of the collateral as determined using our automated HAVICS system. We generally revalue collateral on a periodic basis (every two years for real estate, every year for equipment, every month for unlisted stocks and deposits and every week for stocks listed on a major Korean stock exchange).

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

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by homes, other real estate, deposits or securities. As of December 31, 2003, approximately (Won)9,533 billion, or 74.7% 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, 2003, this amount was approximately (Won)5 billion.

Pricing. The interest rates on our consumer loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived internally, which reflects our internal cost of funding, further adjusted to account for the borrower s credit score and our opportunity cost) or a fixed rate that reflects those same costs and expenses, but taking into account interest rate risks. Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our automated HAVICS system. 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, 2003, approximately 70.0% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

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

As of December 31, 2003, approximately 80.8% of our mortgage and home equity loans were secured by residential or other property, 3.0% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 16.2% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). Since a relatively low percentage of our mortgage and home equity loan portfolio is secured by collateral, we may be required to establish larger allowances for loan losses with respect to any such loans that become non-performing. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. One reason that a relatively high percentage of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2003, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)2,850 billion. For the year ended December 31, 2003, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 63.6%, compared to 69.1% for the year ended December 31, 2002.

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, 2003, approximately 97.2% 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 combined deposit and loan balance of at least (Won)100 million with us. As of December 31, 2003, we had approximately 131,958 customers who qualified for private banking services, representing about 0.7% of our total retail customer base. Of our total retail customer deposits of (Won)48,631 billion as of December 31, 2003, high net worth and mass affluent customers accounted for approximately 35%.

Through our private bankers, we provide financial and real estate advisory services to our high net worth and mass affluent customers. We also market differentiated investment and banking products and services to these segments, including beneficiary certificates, overseas mutual fund products, specialized bank accounts and credit cards. In addition, we have developed a customer loyalty program for our private banking customers that provides preferential rate and fee benefits and awards. We have also segmented our private banking operations

by introducing exclusive private client services for high net worth customers who individually maintain a combined deposit and loan balance of at least (Won)1 billion with us. We believe that our private banking operations will allow us to increase our revenues from our existing high net worth and mass affluent customers, as well as attract new customers in these segments.

Woori Bank currently operates one private client service center in the Seoul metropolitan area, which is staffed by five private bankers. Woori Bank also has 43 branches that have separate private banking areas staffed with a private banker, all of which are located in the Seoul metropolitan area. Kyongnam Bank and Kwangju Bank each operates one dedicated private banking center. Kyongnam Bank s private banking center is staffed by four private bankers, while Kwangju Bank s private banking center is staffed by two private bankers. Kwangju Bank also offers private banking services through a select number of branches. As of December 31, 2003, 96 private bankers were dispersed over 54 Kwangju Bank branches that provided private banking services.

Deposit-Taking Activities

As of December 31, 2003, we were the second-largest deposit holder on a combined basis (not adjusted for overlap) among Korean banks, in large part due to our nation-wide branch network. The balance of our deposits from retail customers was (Won)39,913 billion, and (Won)44,942 billion and (Won)48,631 billion as of December 31, 2001, 2002 and 2003, respectively, which constituted 57.8%, 57.2%, and 54.6%, respectively, of the balance of our total deposits.

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

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

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

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

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

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

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2003:

Time Deposits	Demand Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
48.3%	29.6%	11.9%	5.9%	4.3%

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 time deposits and decreases with installment deposits and savings deposit accounts receiving relatively less interest, and demand deposits accruing little or no interest.

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

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

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

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay an annual premium of 0.1% of our average deposits and, for the year ended December 31, 2003, our banking subsidiaries paid an aggregate of (Won)114 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 934 branches in Korea as of December 31, 2003, which on a combined basis, was the second-most extensive network of branches among Korean commercial banks. In Korea, consumer transactions are generally conducted in cash or with credit cards, and conventional checking accounts generally are not offered. Recently, demand for mutual funds and other asset management products as well as bancassurance products have been rising. These products require extensive sales force and customer interaction to sell, further emphasizing the need for an extensive branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct most of their transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

The following table presents the geographical distribution of our branch network in Korea as of December 31, 2003.

	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total

Area								
Seoul	356	51%	3	2%	3	3%	362	39%
Five largest cities (other than Seoul)	115	17	4	3	77	67	196	21
Other	221	32	120	95	35	30	376	40
Total	692	100%	127	100%	115	100%	934	100%

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.

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As part of our overall reorganization and integration plan, we have been engaged in a business process re-engineering project, which commenced in April 2002, aimed at reducing redundant functions and streamlining our operations by concentrating our credit evaluation and approval processes, foreign exchange operations and back-office functions within the head office or regional centers, instead of maintaining them at the branch level. See Item 4A. History and Development of the Company Reorganization and Integration Plan.

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2003.

	ATMs	Cash Dispensers
Woori Bank	2,716	3,220
Kyongnam Bank	316	442
Kwangju Bank	216	448
Total	3,248	4,110

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,		
	2001	2002	2003
ATMs: [1]			
Number of transactions (millions)	327	357	335
Fee income (billions of Won)	(Won) 15	(Won) 25	(Won) 35
Telephone banking:			
Number of users	2,418,000	2,892,100	3,322,751
Number of transactions (millions)	108	123	121
Fee income (billions of Won)	(Won) 11	(Won) 15	(Won) 14
Internet banking:			
Number of users	1,171,858	2,534,503	3,246,396
Number of transactions (millions)	153	351	498
Fee income (billions of Won)	(Won) 25	(Won) 38	(Won) 52

Kyongnam Bank

	For the year ended December 31,		
	2001	2002	2003
ATMs: [1]			
Number of transactions (millions)	47	53	55
Fee income (billions of Won)	(Won) 1	(Won) 1	(Won) 2
Telephone banking:			
Number of users	280,598	396,608	461,163
Number of transactions (millions)	13	18	20
Fee income (billions of Won)	(Won) 1	(Won) 2	(Won) 2
Internet banking:			
Number of users	80,378	171,208	207,591
Number of transactions (millions)	8	24	33
Fee income (billions of Won)	(Won) 0.2	(Won) 0.3	(Won) 1

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Kwangju Bank

	For the year ended December 31,		
	2001	2002	2003
ATMs: [1]			
Number of transactions (millions)	49	53	52
Fee income (billions of Won)	(Won) 5	(Won) 6	(Won) 5
Telephone banking:			
Number of users	157,000	207,000	366,585
Number of transactions (millions)	15	18	24
Fee income (billions of Won)	(Won) 2	(Won) 2	(Won) 1
Internet banking:			
Number of users	24,000	43,000	334,295
Number of transactions (millions)	5	12	23
Fee income (billions of Won)	(Won) 0.1	(Won) 0.3	(Won) 1

(1) Includes cash dispensers.

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

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

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

We also participate in other Internet-related initiatives. For example, in May 2001, we began to offer *e-Clips*, a global aggregate account service system, to customers of Woori Bank. Before we launched this service, customers could only check their account status at the web site of the financial institution where they opened their accounts. According to 7.24 Solutions of Canada, the entity that licensed this technology to us, *e-Clips* enables our customers to check all of their accounts opened at any of the approximately 900 financial institutions worldwide (including 90 such institutions in Korea) that have agreed to be a part of this service on a single web site. In January 2001 we introduced *eWoori F/X* Trading, which we believe is Korea s first real-time, online foreign exchange trading system.

We also provide mobile banking services to our customers, which is available to all our Internet-registered users. These services allow our customers to complete selected banking transactions through major Korean telecommunications networks using their cellular phones or other mobile device. We do not receive any fee income from our mobile banking services. In November 2003, we entered into a memorandum of understanding with SK Telecom to create a service platform to enable SK Telecom customers to pay bills and conduct monetary transactions using their cellular phones. We launched this service with SK Telecom in March 2004. We also plan to enter into similar arrangements with KTF and LG Telecom.

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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, 2003, Woori Credit Card s market share based on transaction volume was approximately 5.9%, which ranked Woori Credit Card as the sixth largest credit card company in Korea, according to BC Research, which is a quarterly report issued by BC Card. As a back-office service provider, BC Card is not included for purposes of determining market share.

As of December 31, 2003, Woori Credit Card had eight branch offices and 251 permanent employees and 164 contract-based employees. As of December 31, 2003, Woori Credit Card had agency contracts with approximately 21 individual sales agents to originate new accounts on a commission basis. These agents are not permitted to work for more than one card issuer at a time. As of December 31, 2003, substantially all of Woori Credit Card s new accounts were originated through Woori Bank s branch network. Substantially all of the employees and agency relationships of Woori Credit Card were transferred to Woori Bank in connection with the merger.

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

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 stopped issuing Woori Bank BC Card brand cards following the transfer of Woori Bank s credit card operations to Woori Credit Card in February 2002. We issue Visa brand cards under a non-exclusive license agreement with Visa International Service Association and also issue MasterCard and JCB brand cards under a non-exclusive, co-branding agreement with BC Card.

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

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

- cash advance services from ATMs and bank branches; and

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

Unlike in the United States and many other countries, where most credit cards are revolving cards that allow outstanding balances to be rolled over from month to month so long as a required minimum percentage is repaid, cardholders in Korea are generally required to pay for their non-installment purchases as well as cash advances within approximately 31 to 53 days of purchase or advance, depending on their payment cycle.

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

	As of or for the year ended December 31,								
	2001			2002			2003		
	Woori Card [1]	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card [2]	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card [3]	Kyongnam Bank BC Card	Kwangju Bank Visa Card [4]
	(in billions of Won, unless indicated otherwise)								
Number of credit card holders (at year end) (thousands of holders)									
General accounts	4,188	255	284	5,162	315	368	5,018	274	292
Corporate accounts	84	10	12	108	15	15	124	16	15
Total	4,272	265	296	5,270	330	383	5,142	290	307
Number of merchants (at year end) (thousands of merchants)	1,951	55	75	273	64	95	341	62	98
Active ratio [5]	62.9%	6.12%	67.6%	60.6%	58.0%	64.1%	54.20%	48.28%	100%
Credit card interest and fees									
Installment and cash advance interest	(Won) 536	(Won) 21	(Won) 18	(Won) 614	(Won) 34	(Won) 19	(Won) 715	(Won) 25	(Won) 5
Annual membership fees		1		13			16	1	
Merchant fees	232	15	10	273	22	13	241	19	2
Other fees	116	5	14	81	6	14	122	5	10
Total	(Won) 884	(Won) 42	(Won) 42	(Won) 981	(Won) 62	(Won) 46	(Won) 1,094	(Won) 50	(Won) 17
Charge volumes									
General purchase	(Won) 4,720	(Won) 316	(Won) 285	(Won) 6,115	(Won) 479	(Won) 355	(Won) 6,851	(Won) 795	(Won) 117
Installment purchase	4,109	165	68	4,673	308	114	2,953	209	21
Cash advance	16,167	525	639	22,238	987	684	17,462	586	99
Card loan	43	14	26	326	14	8	70	24	55
Total	(Won) 25,039	(Won) 1,020	(Won) 1,018	(Won) 33,352	(Won) 1,788	(Won) 1,171	(Won) 27,336	(Won) 1,614	(Won) 292
Outstanding balances (at year end)									
	(Won) 545	(Won) 41	(Won) 33	(Won) 586	(Won) 52	(Won) 37	(Won) 581	(Won) 62	(Won) 7

General purchase									
Installment purchase	1,136	80	27	1,721	109	43	872	55	1
Cash advance	1,991	86	70	2,983	123	74	1,440	49	1
Card loan	424	14	26	495	14	18	822	24	1
Total	(Won) 4,096	(Won) 221	(Won) 156	(Won) 5,785	(Won) 298	(Won) 172	(Won) 3,715	(Won) 190	(Won) 10
Average outstanding balances									
General purchase	(Won) 701	(Won) 35	(Won) 30	(Won) 653	(Won) 54	(Won) 38	(Won) 691	(Won) 60	(Won) 18
Installment purchase	674	50	24	1,045	98	36	1,354	76	19
Cash advance	2,058	66	70	2,478	122	77	2,890	83	21
Card loan	483	11	34	438	14	23	685	18	12
Total	(Won) 3,916	(Won) 162	(Won) 158	(Won) 4,614	(Won) 288	(Won) 174	(Won) 5,621	(Won) 237	(Won) 70
Delinquency ratios (6)									
Less than 1 month	4.42%	2.24%	2.11%	5.15%	2.93%	2.51%	11.23%	2.41%	2.40%
From 1 month to 3 months	1.48	1.45	1.21	3.55	3.73	3.15	6.72	2.58	2.64
From 3 months to 6 months	1.25	1.01	1.00	2.12	4.20	1.10	13.81	3.96	2.51
Over 6 months	0.38	1.50	0.63	0.50	1.29	0.62	2.89	0.28	7.42
Total	7.53%	6.20%	4.95%	11.32%	12.15%	7.38%	34.65%	9.23%	14.97%
Non-performing loan ratio (7)	1.79%	2.51%	1.63%	3.18%	5.49%	1.72%	16.70%	4.24%	9.93%
Charge-offs (gross)	(Won) 112	(Won) 3	(Won) 4	(Won) 238	(Won) 15	(Won) 9	(Won) 1,257	(Won) 58	(Won) 20
Recoveries	42	1	2	5	1	2	13	4	
Net charge-offs	(Won) 70	(Won) 2	(Won) 2	(Won) 233	(Won) 14	(Won) 7	(Won) 1,245	(Won) 55	(Won) 20
Gross charge-off ratio (8)	2.70%	1.20%	2.17%	5.16%	4.91%	4.84%	22.37%	24.47%	28.37%
Net charge-off ratio (9)	1.70%	1.00%	1.23%	5.05%	4.63%	4.02%	22.14	23.00%	28.37%

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

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

(3) From March 2003, includes the credit card operations transferred from Kwangju Bank. Credit card operations of Kwangju Bank were transferred to Woori Credit Card in March 2003, but did not include outstanding credit card receivables at the date of transfer. The credit card accounts previously acquired from Kwangju Bank (but not the outstanding credit card receivables relating to such account) were spun off and transferred back to Kwangju Bank by Woori Credit Card in March 2004 prior to Woori Credit Card s merger with Woori Bank.

(4) Reflects information for the credit card operations of Kwangju Bank prior to their transfer to Woori Credit Card in March 2003, as well as for the outstanding credit card receivables at the date of the transfer that were retained by Kwangju Bank.

(5) 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.

(6) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding loans since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans or replaced with substituted cash advances, and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans and substituted cash advances, outstanding balances overdue by 30 days or more accounted for 37.3% of our credit card receivables as of December 31, 2003.

(7) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans or replaced with substituted cash advances, in each case that were classified as normal or precautionary as of December 31, 2002 and 2003.

	As of December 31,	
	2002	2003
	(in billions of Won)	
Restructured loans	(Won) 269	(Won) 635
Substituted cash advances	512	2

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

	As of December 31,					
	2002			2003		
	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card	Kyongnam Bank BC Card	Kwangju Bank Visa Card
Non-performing loan ratio	18.11%	7.50%	1.72%	33.46%	12.36%	9.93%

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

	2002	2003

	(in billions of Won)	
Restructured loans greater than six months past due from the initial delinquency date and not charged off	(Won) 10	(Won) 50
Substituted cash advances greater than six months past due from the initial delinquency date and not charged off	5	271
Total	(Won) 15	(Won) 321

(9) 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 flier miles and award program points that can be redeemed for services, products or cash;

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

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

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

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

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans commencing in 2002. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of (Won)1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a downpayment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2003, the total amount of our restructured loans was (Won)695 billion (which also included revolving loans and installment loans). In addition, in line with industry practice, we have in the past agreed with selected cardholders to replace their delinquent credit card balances with cash advances that are rolled over from month to month. As of December 31, 2003, the total amount of such substituted cash advances was (Won)334 billion. We have discontinued this practice commencing in September 2003. Because restructured loans and revolving cash advances are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card receivables and loans.

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

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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 Risk Measurement and Control.

Payments on amounts outstanding on our credit cards must be made (at the cardholder s election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly installments over a fixed term from two months to 36 months, in the case of installment purchases. Cardholders may prepay installment purchases at any time without penalty. Payment for cash advances must be made on a lump sum basis. Payments for card loans must be made on an equal principal installment basis over a fixed term from three months up to a maximum of 60 months, up to a maximum loan amount of (Won)30 million.

No interest is charged on lump-sum purchases that are paid in full by the monthly payment date. For installment purchases, we charge a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, we currently apply an interest rate between approximately 11.0% and 19.5% per annum as determined by the cardholder s application system score. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval Credit Card Approval Process and Credit Review and Monitoring Credit Card Review and Monitoring.

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 12.0% to 27.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a commission of (Won)600 per withdrawal. Cardholders using ATMs of other financial institutions are not charged any commissions for withdrawals relating to cash advances.

Each existing cardholder s interest rate is determined by such cardholder s customer group classification as determined by a combination of such cardholder s behavior scoring system information and the revenue contribution of such cardholder. Using such information, we generally place each account into one of six groups. Placement in a particular group determines the interest rate charged for cards issued under the account.

We also charge a basic annual membership fee of (Won)2,000 to (Won)5,000 for regular cards, (Won)5,000 to (Won)10,000 for gold cards and (Won)30,000 to (Won)120,000 for platinum cards. The determination of the annual fee is based on the type of card and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori Card (which can only be used in Korea and is not affiliated with Visa or MasterCard), Woori Christian Card and Hyundai Home Shopping Woori Card, we will waive membership fees if customers charge above a certain amount. Currently, new cardholders are exempt from payment of annual membership fees for the first year.

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, 2003, we charged merchants an average of 2.5% of their respective total transaction amounts. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

We engage in capital markets activities for our own account and for our customers. Our capital markets activities include securities investment and trading, derivatives trading, asset securitization services, investment banking and securities brokerage. For a discussion of our risk management policies with respect to our trading activities, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Market Risk Management Market Risk Management for Trading Activities.

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Securities Investment and Trading

Through Woori Bank and, to a lesser extent, Kyongnam Bank, Kwangju Bank and Woori Securities, 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, 2003, our investment portfolio, which consists of held-to-maturity securities and available-for-sale securities, and our trading portfolio had a combined total book value of (Won)26,031 billion and represented 20.4% 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, 2003, we held debt securities with a total book value of (Won)24,782 billion, of which:

- held-to-maturity debt securities accounted for (Won)9,801 billion, or 39.5%;
- available-for-sale debt securities accounted for (Won)11,737 billion, or 47.4%; and
- trading debt securities accounted for (Won)3,244 billion, or 13.1%.

Of these amounts, as of December 31, 2003, debt securities issued by the Korean government and government agencies amounted to (Won)8,466 billion, or 86.4%, of our held-to-maturity debt securities, (Won)6,618 billion, or 56.4%, of our available-for-sale debt securities, and (Won)1,823 billion, or 56.2%, of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the Korea Stock Exchange or KOSDAQ. As of December 31, 2003:

- equity securities in our available-for-sale portfolio had a book value of (Won)672 billion, or 5.4%, of our available-for-sale portfolio; and
- equity securities in our trading portfolio had a book value of (Won)577 billion, or 15.1%, of our trading portfolio.

The book value of our trading and investment portfolios has increased in recent years. This increase has been driven by our increased level of funding resulting from the increase in our deposit taking. 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 Investment Portfolio.

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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, 2001			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 5,224	(Won) 94	(Won) (42)	(Won) 5,276
Corporate	1,256	68	(4)	1,320
Financial institutions	750	37	(5)	782
Foreign governments	68	13		81
Subtotal	7,298	212	(51)	7,459
Equity securities	271	37	(7)	301
Beneficiary certificates (1)	979	82	(1)	1,060
Total available-for-sale securities	(Won) 8,548	(Won) 331	(Won) (59)	(Won) 8,820
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 10,197	(Won) 607	(Won) (22)	(Won) 10,782
Corporate	419	4	(1)	422
Financial institutions	581	10	(1)	590
Foreign governments	5			5
Total held-to-maturity securities	(Won) 11,202	(Won) 621	(Won) (24)	(Won) 11,799

	As of December 31, 2002			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,410	(Won) 76	(Won) (23)	(Won) 6,463
Corporate	1,262	48	(21)	1,289
Financial institutions	1,714	20	(25)	1,709
Foreign governments	133	21	(3)	151
Subtotal	9,519	165	(72)	9,612
Equity securities	221	13	(17)	217
Beneficiary certificates (1)	1,026	12	(21)	1,017
Total available-for-sale securities	(Won) 10,766	(Won) 190	(Won) (110)	(Won) 10,846

Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 8,913	(Won) 526	(Won) (33)	(Won) 9,406
Corporate	367	16	(11)	372
Financial institutions	660	0	(10)	650
Foreign governments	19	1		20
Total held-to-maturity securities	(Won) 9,959	(Won) 543	(Won) (54)	(Won) 10,448

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	As of December 31, 2003			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 6,592	(Won) 45	(Won) (19)	(Won) 6,618
Corporate	2,697	73	(13)	2,757
Financial institutions	2,234	17	(3)	2,248
Foreign governments	114	1	(1)	114
Subtotal	11,637	136	(36)	11,737
Equity securities	192	96	(8)	280
Beneficiary certificates [(1)]	384	8	(1)	391
Total available-for-sale securities	(Won) 12,213	(Won) 240	(Won) (45)	(Won) 12,408
Held-to-maturity securities:				
Debt securities				
Korean Treasury securities and government agencies	(Won) 8,466	(Won) 343	(Won) (6)	(Won) 8,803
Corporate	490	2		492
Financial institutions	806	4	(2)	808
Foreign governments	39	1		40
Total held-to-maturity securities	(Won) 9,801	(Won) 350	(Won) (8)	(Won) 10,143

(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.

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers, primarily through Woori Bank and Woori Securities. Our trading volume was (Won)7,131 billion in 2001, (Won)11,436 billion in 2002 and (Won)27,114 billion in 2003, respectively. Our net trading revenue from derivatives and foreign exchange spot contracts for the years ended December 31, 2001, 2002 and 2003 was (Won)247 billion, (Won)184 billion and (Won)154 billion, respectively.

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

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

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

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

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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. All 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 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,					
	2001		2002		2003	
	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities
	(in billions of Won)					
Foreign exchange spot contracts	(Won) 2	(Won) 3	(Won) 1	(Won) 3	(Won) 1	(Won) 2
Foreign exchange derivatives	60	57	107	152	218	271
Interest rate derivatives	142	69	233	148	223	178
Equity derivatives	5	0	18	6	26	11
Credit derivatives [(1)]	0	19	0	13	1	11
Total	(Won) 209	(Won) 218	(Won) 359	(Won) 322	(Won) 469	(Won) 473

(1) Our total exposure under credit derivatives outstanding was US$90 million as of December 31, 2003. In connection with such credit derivatives, we accept credit exposure with respect to foreign currency-denominated corporate debt instruments held by counterparties by guaranteeing payments under such instruments, subject to our overall credit limits with respect to the applicable issuers.

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

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank and Woori Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2003, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)1,109 billion and generated total fee income under Korean GAAP of approximately (Won)14 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 Securities. Through Woori 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 2003, Woori Securities generated investment banking revenue under Korean GAAP of approximately (Won)5.6 billion, consisting primarily of (Won)4.8 billion of fee income and (Won)349 million of interest income, from a total of ten 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 2003, Woori Bank generated investment banking revenue of (Won)0.5 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services.

We believe that significant opportunities exist for us to leverage our existing base of large corporate and small- and medium-sized banking customers to cross-sell investment banking services. 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 in Korea through Woori Securities, which has been listed on the Korea Stock Exchange since July 26, 1988. We acquired the 47.3% interest in Woori Securities that we did not own prior to such acquisition in June 2004, and plan to delist it from the Korea Stock Exchange in July 2004. Our activities include brokerage services relating to stocks, futures, options and debt instruments (such as commercial paper). As of December 31, 2003, Woori Securities had 41 branches, as well as 22 brokerage outlets in Woori Bank s branches. We also provide securities brokerage services through the Internet through Woori Securities HTS: 2002 GoodAnswer pro and X-Trade systems. In January 2004, we introduced HTS X-Trade EX and HTS X-Trade SP, which were upgraded trading systems for derivatives and options. In 2003, we generated fee income under Korean GAAP of (Won)53.1 billion through our securities brokerage activities. As of December 31, 2003, under Korean GAAP, Woori Securities net operating capital ratio (which represents the ratio of net operating capital to gross risk amount) was 756.3% and its debt to asset ratio was 249.8%.

We are participating in the bidding for the 21.2% controlling voting interest in LG Investment & Securities, a leading domestic securities firm, which is currently held by LG Card. The shares comprising the interest were pledged by the chairman of LG Group to the creditor financial institutions in connection with the rescue plan for LG Card and are being auctioned by the creditor financial institutions. Several potential domestic and overseas purchasers, including us, submitted preliminary bids for the shares being auctioned and conducted a due diligence review of the company. In May 2004, the Korea Development Bank, which is coordinating the auction process on behalf of the creditor financial institutions, announced that we were selected as one of the two preferred bidders for the 21.2% interest. We are currently negotiating a memorandum of understanding with the Korea Development Bank with respect to our bid and plan to conduct further due diligence on LG Investment & Securities. The Korea Development Bank announced that it expects to complete the sale of the interest by July 2004. LG Investment & Securities had total assets of (Won)4,667 billion, total liabilities of (Won)3,079 billion and total shareholders equity of (Won)1,588 billion as of March 31, 2004 and generated revenues of (Won)925 billion and net income of (Won)4 billion for the year ended March 31, 2004, each on a Korean GAAP basis. We believe that the acquisition of a controlling interest in LG Investment & Securities will benefit our existing securities brokerage operations by providing significant economies of scale, as well as a greater experience base and name recognition in the Korean market, in the areas of securities brokerage and investment banking. However, there is no guarantee that we will continue to participate in the bidding, or be ultimately selected as the purchaser, for the interest in LG Investment & Securities. If we acquire the interest, we expect to finance the acquisition through an interim dividend from Woori Bank and additional bank borrowings at the holding company level.

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,		
	2001	2002	2003
	(in millions of US$)		
Total foreign currency assets	$ 12,682	$ 13,886	$ 14,331
Foreign currency borrowings			
Call money	79	129	286
Secured borrowings	1,022	864	964
Long-term borrowings	1,609	1,986	3,190
Short-term borrowings	3,405	3,667	3,467
Total foreign currency borrowings	$ 5,014	$ 5,653	$ 7,907

The table below sets forth our overseas subsidiaries and branches currently in operation as of December 31, 2003.

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

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

In addition, Woori America Bank currently operates 12 branches in New York and New Jersey and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US$613 million as of December 31, 2003 and net income of US$2 million in 2003. In September 2003, Woori America Bank acquired and merged with Panasia Bank N.A. in the United States from National Penn Bancshares Inc. for US$34.5 million in cash. Panasia Bank was established in 1993 as the first Asian-American owned lender in the United States and was one of the largest banks specializing in service to the Korean-American community in the eastern United States. Panasia Bank had total assets of US$214 million as of December 31, 2002 and net income of US$2 million in 2002 and operated six branches located in New Jersey, Pennsylvania and Virginia.

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

In July 2003, Woori Bank entered into a memorandum of understanding with the Industrial and Commercial Bank of China with respect to cooperation in international settlements and high-level human resource exchanges.

Asset Management

Trust Management Services

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

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

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

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

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

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

We receive fees for our trust management services consisting of:

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

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

We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Money trust management is currently the largest source of our fee income. Fees that we received for our trust management services (including those fees related to property trust management services, described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to (Won)49 billion in 2001, (Won)62 billion in 2002 and (Won)45 billion in 2003.

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

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

	As of December 31,		
	2001	2002	2003
	(in billions of Won)		
Principal and interest guaranteed trusts	(Won) 11	(Won) 11	(Won) 12
Principal guaranteed trusts	1,989	1,765	1,666
Performance trusts	5,652	6,708	4,790
Total	(Won) 7,652	(Won) 8,484	(Won) 6,468

The balance of our money trusts decreased 15.5% between December 31, 2001 and December 31, 2003. These decreases resulted mainly from lower demand, including due to the financial difficulties of LG Card and SK Networks, to which the trust accounts of banks had exposure.

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, 2003, under Korean GAAP, our money trusts had invested in securities with an aggregate book value of (Won)5,620 billion, which accounted for 82.7% of our money trust assets. Debt securities accounted for (Won)3,822 billion of this amount.

Loans made by our money trusts are similar in type to the loans made by our banking operations. As of December 31, 2003, under Korean GAAP, our money trusts had made loans in the aggregate principal amount of (Won)215 billion (excluding loans to our banking operations of (Won)1,080 billion), which accounted for approximately 3.3% of our money trust assets. Because we act as trustee, loans by money trusts are made at our discretion and are subject to the same credit approval process as loans from our banking operations. As of December 31, 2003, 60.2% of the amount of loans from our money trusts were collateralized or guaranteed.

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, 2003, equity securities held by our money trusts amounted to (Won)411 billion on a Korean GAAP basis, which accounted for approximately 6.2% of our money trust assets. Of this amount, (Won)284 billion was from specified money trusts and the remaining (Won)127 billion was from money trusts over which we had investment discretion.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained in our trust accounts, followed by basic fees from that money trust and funds from our banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. In 2001 and 2002, we made no payments from our banking operations to cover shortfalls in our guaranteed return trusts. In 2003, we made aggregate net payments of (Won)26 billion from our banking operations to cover shortfalls in our guaranteed return trusts resulting mainly from their holdings of securities issued by LG Card.

The Indirect Investment Asset Management Business Act, which applies to unspecified money trust account products, took effect in January 2004. Under that law, a bank will not be permitted to offer unspecified money trust products after July 2004 (except under certain limited circumstances) and will be required to qualify as an asset management company by such date in order to manage any newly offered unspecified money trust products. See Supervision and Regulation Trust Business. As a result, commencing in July 2004, we plan to cease offering unspecified money trust products through our banking subsidiaries and to transfer the unspecified money trust operations of those subsidiaries (other than outstanding balances, which they will continue to manage until the withdrawal of the relevant money trust deposits by customers) to Woori Investment Trust Management.

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Property Trusts. Through Woori 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 2003, our property trust fees ranged from 0.07% to 0.18% of total assets under management, depending on the type of trust account product. As of December 31, 2003, the balance of our property trusts totaled (Won)1,186 billion.

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

Investment Trust Management

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

- *equity funds*, where equity securities or equity-linked securities consist of 60% or more of their assets;
- *bond funds*, where debt securities or interest rate futures consist of 60% or more of their assets;
- *hybrid funds*, the assets of which include both debt and equity securities with no minimum requirement to hold either type of security; and
- *money market funds*, which invest mostly in short-term financial products, such as call loans, commercial paper and certificates of deposit.

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

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

	As of December 31,

	2001	2002	2003
		(in billions of Won)	
Equity funds	(Won) 153	(Won) 154	(Won) 83
Bond funds	1,071	1,048	948
Hybrid funds	388	474	456
Money market funds	1,438	2,026	856
Total	(Won) 3,050	(Won) 3,702	(Won) 2,434

The balance of our investment trusts decreased 23% between December 31, 2000 and 2003. The decrease resulted mainly from increasing competition and saturation in the market for investment trust products in Korea, as well as customer losses in 2003 stemming from financial difficulties of portfolio companies in which investment trusts have invested including SK Networks, which has led to reduced demand for investment trust products in Korea.

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

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

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

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

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

Fees from our investment trust management services amounted to (Won)9.9 billion in 2001, (Won)8.9 billion in 2002 and (Won)5.0 billion in 2003. Fee levels changed by investment trust management companies have been declining in recent years due to increasing competition and market saturation.

Although our current customer base consists mainly of institutional investors, we have been seeking to market our investment trust products to retail customers through our consumer banking network. We believe that significant opportunities exist for us to leverage our existing base of consumer banking customers to cross-sell our investment trust products. We intend to expand our investment trust management operations to take advantage of these opportunities, with a view to increasing our fee income and further diversifying our revenue base. We also intend to focus on the development of new products tailored to particular customer segments, including those that would be attractive to our private banking customers.

We currently intend to participate in the bidding for an interest in either Korea Investment & Securities or Daehan Investment & Securities, which were acquired and recapitalized by the KDIC on behalf of the Korean government due to the financial difficulties they were experiencing and are in the process of being auctioned by the KDIC. Several potential domestic and overseas purchasers, including us, have submitted preliminary bids for each company and are conducting a due diligence review of each company. The KDIC has announced that it intends to select one or more preferred bidders for each company in July 2004 and to complete the sale of its interests in the two companies by the end of 2004. Korea Investment & Securities had operating revenues of (Won)544 billion and a net loss of (Won)59 billion for the year ended March 31, 2004, each under Korean GAAP. Korea Investment Trust Management, which is a wholly owned subsidiary of Korea Investment & Securities and is one of Korea s largest investment trust companies, had (Won)17,624 billion of assets under management as of March 31, 2004. Daehan Investment & Securities had operating revenues of (Won)914 billion and a net income of (Won)482 billion for the year ended March 31, 2004, each under Korean GAAP. Daehan Investment Trust Management, which is a wholly owned subsidiary of Daehan Investment & Securities and is also one of Korea s largest investment trust companies, had (Won)19,324 billion of assets under management as of March 31, 2004. We believe that the acquisition of a controlling interest in either of these companies will benefit our existing investment trust management operations by providing significant economies of scale, as well as a greater experience base and name recognition in the Korean market. However, there is no guarantee that we will ultimately decide to participate in the bidding, or be ultimately selected as the purchaser, for either of these companies. If we acquire either of these companies, we expect to finance the acquisition through an interim dividend from Woori Bank and additional bank borrowings at the holding company level.

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank and Kyongnam Bank, we act as a trustee for approximately 70 securities investment trusts. We receive a fee for acting as a trustee and generally perform the following functions:

- receiving payments made in respect of such securities;

executing trades in respect of such securities on behalf of the securities investment trust, based on instructions from the relevant securities investment trust management company; and

in certain cases, authenticating beneficiary certificates issued by investment trust management companies and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2003, our fee income from such services was (Won)4.9 billion.

Other Businesses

Merchant Banking

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

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

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

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

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

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

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

As a result, since 2001 we have been concentrating on improving the asset quality of our merchant banking operations by disposing of non-performing assets through asset sales to KAMCO and to various special purpose companies formed in connection with our joint venture with Lehman Brothers. See Assets and Liabilities Non-Performing Loan Strategy. We merged Woori Investment Bank with Woori Bank in August 2003 in order to reduce our costs and take advantage of potential synergies with Woori Bank s corporate banking activities.

Management of National Housing Fund

In November 2002, we were selected to manage the operations of the National Housing Fund, together with two other financial institutions. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2003, outstanding housing loans from the National Housing Fund amounted to (Won)43 trillion, of which we originated approximately (Won)3 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, subscription savings deposits held at the National Housing Fund and the sale of lottery tickets.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. In February 2003, the Ministry of Construction and Transportation amended the method of calculating these fees. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts, the number of National Housing Fund bonds issued or redeemed and the number of National Housing Fund lottery tickets we sell to raise funds for the National Housing Fund during each month. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. In 2003, we received total fees of (Won)19.6 billion for managing the National Housing Fund compared to (Won)3.7 billion in 2002.

Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured by them directly or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we currently market a wide range of bancassurance products in connection with a recent revision to existing regulations that is intended to liberalize the bancassurance market in Korea. The revision has allowed us to offer insurance products commencing in September 2003. We believe that we will be able to develop an important new source of fee-based revenues by expanding our offering of these products. We have entered into bancassurance marketing arrangements with six insurance companies, including Samsung Life and American International Assurance, and plan to enter into additional arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base, to market their insurance products.

Competition

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

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

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

Assets and Liabilities

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

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Loan Portfolio

As of December 31, 2003, the balance of our total loan portfolio was (Won) 88,392 billion, a 10.2% increase from (Won)80,226 billion as of December 31, 2002. As of December 31, 2003, 97.7% of our total loans were Won-denominated loans and 2.3% of our total loans were denominated in other currencies. Of the (Won)11,129 billion of foreign currency-denominated loans as of that date, approximately 18.3% 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,					
	1999	**2000**	**2001**	**2002**	**2003**	**2003**
			(in billions of Won)			**(%)**
Domestic:						
Corporate:						
Commercial and industrial	(Won) 18,553	(Won) 24,832	(Won) 25,363	(Won) 33,717	(Won) 40,642	46.0%
Lease financing		931	630	310	222	0.3
Trade financing	5,771	7,956	6,048	6,562	6,922	7.8
Other commercial	7,210	9,564	5,812	5,466	4,254	4.8
Total corporate	31,534	43,283	37,853	46,055	52,040	58.9
Consumer:						
General purpose household [(1)]	5,095	8,601	14,026	23,315	26,758	30.2
Mortgage	358	1,180	1,147	2,451	3,599	4.1
Total consumer	5, 453	9,781	15,173	25,766	30,357	34.3
Credit cards	1,160	3,593	5,292	6,418	3,964	4.5
Total domestic	38,147	56,657	58,318	78,239	86,361	97.7
Foreign:						
Corporate:						
Commercial and industrial	4,016	3,325	1,821	1,811	1,884	2.1
Trade financing	168	54	976	96	63	0.1
Total corporate	4,184	3,379	2,797	1,907	1,947	2.2
Consumer		50	77	80	84	0.1
Total foreign	4,184	3,429	2,874	1,987	2,031	2.3

Total gross loans [2]	42,331	60,086	61,192	80,226	88,392	100.0
Loss: Unearned income		(134)	(96)	(40)	(26)	
Total loans	(Won) 42,331	(Won) 59,952	(Won) 61,096	(Won) 80,186	(Won) 88,366	100.0%

(1) Includes home equity loans.
(2) Includes unearned income from leasing loans sold by Woori Investment Bank. See Note 12 of the notes to our consolidated financial statements.

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

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rating provided by the bank s HAVICS system. Woori Bank may adjust this limit if it would otherwise exceed the limit imposed by Korean regulations. See Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Stockholder. Kyongnam Bank limits total exposure to any single borrower or chaebol to 10% of the sum of its Tier I and Tier II capital (less any capital deductions). Kwangju Bank limits its total exposure to 10% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single borrower and 15% of the sum of its Tier I and Tier II capital (less any capital deductions) in the case of any single chaebol.

20 Largest Exposures by Borrower

As of December 31, 2003, our exposures to our 20 largest borrowers totaled (Won)16,724 billion and accounted for 14.2% of our total exposures. The following table sets forth our total exposures to those borrowers as of that date.

Company (S&P/Moody s Credit Ratings) [2]	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Credit Derivatives	Total Exposures	Collateral	Amounts Classified as Substandard or Below [1]
	(in billions of Won)								
Korea Deposit Insurance Corporation (A-/A3)	(Won) 25	(Won)	(Won)	(Won) 8,501	(Won) 5		(Won) 8,531		
Samsung Electronics (A-/A3)	201	877	49		32		1,158		
Kookmin Bank (BBB+/A3)	29	43	11	685			769		
LG Electronics (AA-) [3]		397	8	17	282		704		
LG Card (A) [3]	37			381	176		594		
Shinhan Bank (BBB/Baa1)	39			456			495		
Hyosung Corporation (A) [3]	147	182		24	102		456	(Won) 56	
LG International Corp. (A) [3]		360			94		455		
Industrial Bank of Korea (BBB+/A3)	211			232			444		
Samsung Card (A+) [3]				395	1		396		
Kia Motors (BB+/Ba2)	46	200	4	34	68		352		
Hankook Tire (A+) [3]	30	182	2		125		339	3	
Korea First Bank (BBB-/Baa3)	1			336			337		
Cheil Jedang (AA-) [3]	16	184		32	42		274		
Daewoo International Corporation [4]		93	14		151		257		
Hyundai Merchant Marine (BBB-) [3]	20	235					256	10	
POSCO (A-/A3)	14	5	9	37	180		244		
Sun Capital [4]	88				144		231		
Hyundai Motors (BB+/Ba1)	2	131	9	80			222	3	
Korean Airlines (BBB+) [3]	19	167	1	3	20		211		
Total	(Won) 925	(Won) 3,056	(Won) 107	(Won) 11,213	(Won) 1,422		(Won) 16,724	(Won) 72	

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

(2) As of December 31, 2003.

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

(4) Credit ratings unavailable.

As of December 31, 2003, 12 of these top 20 borrowers were companies belonging to the 29 largest chaebols in Korea. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to the largest Korean commercial conglomerates, known as chaebols, and, as a result, recent and any future financial difficulties of chaebols may have an adverse impact on us.

As of December 31, 2003, we had total exposures of (Won)674 billion to LG Card in the form of loans, asset-backed securities and other debt securities issued by LG Card. Commencing in the second half of 2003, LG Card has been experiencing significant liquidity and asset quality problems. In November 2003, the creditor banks of LG Card (including our subsidiaries) agreed to provide a new (Won)2 trillion credit facility, secured by credit card receivables, to enable LG Card to resume cash operations. Our portion of this commitment was (Won)246 billion. Certain of LG Card s creditor banks (including our subsidiaries) also agreed to extend the maturity of a portion of LG Card s debt coming due in 2003 for one year, after the chairman of LG Group pledged his personal stake in LG Corp. (the group holding company), LG Investment & Securities and LG Card as collateral to offset future losses of LG Card. Our portion of this extension is (Won)246 billion. After the failure to auction LG Card to a buyer in December 2003, the principal creditors of LG Card tentatively agreed to a rescue plan in January 2004 under which the Korea Development Bank would acquire a 25% (subsequently adjusted to 26%) interest in LG Card and the other creditors would collectively acquire a 74% (subsequently adjusted to 73%) ownership interest following the completion of several debt-to-equity swaps contemplated for 2004. In addition, the creditors agreed to form a normalization steering committee for LG Card to oversee LG Card s business operations. An extraordinary shareholders meeting of LG Card was held in March 2004 and a new chief executive officer as well as directors nominated by the normalization steering committee were elected. In February 2004, the creditors exchanged indebtedness of (Won)953.9 billion for shares constituting 54.8% of the outstanding share capital of LG Card. The creditors also extended (Won)1.59 trillion of new loans to LG Card, which will subsequently be converted into equity. LG Group also funded an additional (Won)800 billion to LG Card in the first quarter of 2004 (in addition to a (Won)185 billion capital increase as a result of LG Card s issuance of new shares in December 2003). In May 2004, LG Card completed a capital write-down of 97.7% of its outstanding common stock and entered into a memorandum of understanding with the Korea Development Bank in connection with its restructuring plan. Following the capital write-down, the creditors plan to exchange a further (Won)2,545.5 billion of indebtedness into equity of LG Card. In addition, as LG Card required additional funding, the LG Group and the Korea Development Bank provided (Won)375 billion and (Won)125 billion, respectively, in the first quarter of 2004. In accordance with the plan, in February 2004, we swapped (Won)88 billion of LG Card debt for equity, extended (Won)176 billion of new loans to LG Card and purchased (Won)88 billion of new debt securities issued by LG Card, which loans and debt securities will also be converted into equity. After all such debt-to-equity conversions, we expect to own a 10.3% equity interest in LG Card and have (Won)246 billion of loans, (Won)80 billion of asset-backed securities and (Won)161 billion of debt securities of LG Card that will remain outstanding, which will be our total exposure with respect to LG Card.

As of December 31, 2003, we had total exposures of (Won)195 billion to SK Networks (formerly SK Global), all of which were classified as impaired under U.S. GAAP. In March 2003, the principal creditor banks of SK Networks commenced corporate restructuring procedures against SK Networks after the company publicly announced that its financial statements had understated its debt by (Won)1 trillion and overstated its profits by (Won)1.5 trillion in its financial statements. This admission resulted from a government investigation of a number of SK Group companies for unlawful stock transactions and accounting fraud, as a result of which 10 directors and officers of SK Group companies were indicted. In November 2003, SK Networks underwent a capital reduction and sold approximately (Won)1 trillion of its assets as part of its restructuring plan, and SK Corporation approved a (Won)850 billion debt-for-equity swap. SK Networks is currently under the joint management of its domestic creditors in accordance with its restructuring plan. In addition, in November 2003, Woori Bank and the ten other creditor banks to SK Networks received a warning from the Financial Supervisory Service for failing to provide accurate exposure information to the external auditors of SK Networks in connection with their audit of that company. The Financial Supervisory Service also issued a warning to Woori Securities and another Korean brokerage firm in connection with their involvement in assisting SK Networks to raise funds by issuing commercial paper.

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As of December 31, 2003, our allowance against our loans and guarantees to SK Networks was (Won)78 billion, or 60.1% of the aggregate principal amount of our loans and guarantees to SK Networks.

As of December 31, 2003, we had total exposures of (Won)168 billion to Hynix Semiconductor, of which (Won)72 billion was classified as substandard or below. Beginning during the Asian financial crisis, Hynix Semiconductor has experienced significant financial difficulties. In connection with these difficulties, Hynix Semiconductor has been subject to workout and corporate restructuring procedures, under which its creditor financial institutions have provided it with significant financial assistance, including in the form of additional loans, extensions of maturities of various outstanding payment obligations, debt-equity swap transactions, guarantees of overseas borrowings and injections of additional capital. As of December 31, 2003, our allowance against our loans and guarantees to Hynix Semiconductor was (Won)43 billion, or 58.5% of the aggregate principal amount of our outstanding exposure to Hynix Semiconductor.

As of December 31, 2003, we downgraded the asset classification of our credit exposures to Hyundai Corporation from precautionary to substandard due to an increase in its capital deficit. As of December 31, 2003, our total exposure to Hyundai Corporation was (Won)115 billion. As of December 31, 2003, we had established allowances of (Won)32 billion, or 28.1% of our outstanding exposure to Hyundai Corporation.

Exposure to Chaebols

As of December 31, 2003, 9.7% of our total exposure was to the 29 largest chaebols in Korea. The following table shows, as of December 31, 2003, our total exposures to the ten chaebol groups to which we have the largest exposure.

	Loans									
Chaebol	**Won Currency**	**Foreign Currency**	**Equity Securities**	**Debt Securities**	**Guarantees and Acceptances**	**Credit Derivatives**	**Total Exposures**	**Collateral**	**Amount Classified as Precautionary or Below (1)**	**Amounts Classified as Substandard or Below (1)**
					(in billions of Won)					
Samsung	(Won) 268	(Won) 1,230	(Won) 229	(Won) 535	(Won) 283	(Won)	(Won) 2,545	(Won) 1		
LG	300	1,056	19	198	541	12	2,126	170	(Won) 58	
Hyundai Motors	69	393	20	272	132		886	4		
Hanjin	95	531	3	11	28		668	16		
Hyosung	183	252		27	123		585	62		
Lotte	297	20	3	157	29		506	7		
Hanhwa	265	87		33	91		476	214		
SK	147	130	74	87	2		440	9	165	(Won) 160
Hankook Tire	42	243	2		127		414	11		
Kumho	120	187	1		59		367	128		
Total	(Won) 1,786	(Won) 4,129	(Won) 351	(Won) 1,320	(Won) 1,415	(Won) 12	(Won) 9,013	(Won) 622	(Won) 223	(Won) 160

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

We have significant exposure to several former Hyundai Group companies, former Daewoo Group companies and current and former SK Group companies, Ssangyong Group companies and LG Group companies, a number of which have been experiencing financial difficulties. 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 and Loan Portfolio Loan Types 20 Largest Exposures by Borrowers.

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Exposure to Credit Card Companies

As of December 31, 2003, 1.09% of our total exposure was to Korean credit card companies. The following table shows, as of December 31, 2003, our total exposures to Korean credit card companies.

Credit Card Company	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Asset-Backed Securities	Other Debt Securities	Guarantees and Acceptances	Total Exposures [(1)]
	(in millions of Won)						
LG Card	(Won) 37			(Won) 80	(Won) 381	(Won) 176	(Won) 674
Samsung Card				85	395	1	481
BC Card			(Won) 43				43
Lotte Credit Card					20		20
Others				76			76
Total	(Won) 37		(Won) 43	(Won) 241	(Won) 796	(Won) 177	(Won) 1,294

(1) Includes loans, debt and equity securities, asset-backed securities, guarantees and acceptances and other exposures.

In addition, our investment securities portfolio includes beneficiary certificates representing interests in investment trusts whose assets include securities issued by credit card companies. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to a number of Korean credit card companies and recent and future difficulties faced by those companies may have an adverse impact on us.

Loan Concentration by Industry

The following table shows, as of December 31, 2003, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of total lending.

	Aggregate Loan Balance	Percentage of Total Loan Balance
	(in billions of Won)	
Industry		
Manufacturing	(Won)19,504	22.07%
Retail and wholesale	7,803	8.83
Hotel, leisure or transportation	5,779	6.54
Government and government agencies	116	0.13
Construction	4,449	5.04
Financial and insurance	1,518	1.72
Other	14,792	16.74

Total	(Won)53,961	61.07%

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Loan Concentration by Size of Loans

The following table shows, as of December 31, 2003, the aggregate balances of our loans by outstanding loan amount.

Corporate

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
Commercial and industrial loans		
Up to (Won)100 million	(Won) 4,711	5.3%
Over (Won)100 million to (Won)1 billion	18,690	21.2
Over (Won)1 billion to (Won)10 billion	9,427	10.7
Over (Won)10 billion to (Won)50 billion	4,994	5.7
Over (Won)50 billion to (Won)100 billion	2,055	2.3
Over (Won)100 billion	765	0.9
Sub-total	40,642	46.0
Lease financing loans		
Up to (Won)100 million		0.0
Over (Won)100 million to (Won)1 billion		0.0
Over (Won)1 billion to (Won)10 billion	(Won) 14	0.0
Over (Won)10 billion to (Won)50 billion	93	0.1%
Over (Won)50 billion to (Won)100 billion	13	0.0
Over (Won)100 billion	76	0.1
Sub-total	196	0.2
Trade financing loans		
Up to (Won)100 million	(Won) 1,269	1.4%
Over (Won)100 million to (Won)1 billion	3,186	3.6
Over (Won)1 billion to (Won)10 billion	1,946	2.2
Over (Won)10 billion to (Won)50 billion	520	0.1
Over (Won)50 billion to (Won)100 billion		0.0
Over (Won)100 billion		0.0
Sub-total	6,922	7.8
Other commercial loans		
Up to (Won)100 million	(Won) 647	0.7%
Over (Won)100 million to (Won)1 billion	1,863	2.1
Over (Won)1 billion to (Won)10 billion	852	0.9
Over (Won)10 billion to (Won)50 billion	692	0.8
Over (Won)50 billion to (Won)100 billion	200	0.2
Over (Won)100 billion		0.0
Sub-total	4,254	4.8
Foreign commercial and industrial loans		

Up to (Won)100 million	(Won) 41	0.0
Over (Won)100 million to (Won)1 billion	329	0.4%
Over (Won)1 billion to (Won)10 billion	843	1.0
Over (Won)10 billion to (Won)50 billion	553	0.6
Over (Won)50 billion to (Won)100 billion	118	0.1
Over (Won)100 billion		0.0
Sub-total	1,884	2.1
Foreign trade financing loans		
Up to (Won)100 million	(Won) 14	0.0
Over (Won)100 million to (Won)1 billion	9	0.0
Over (Won)1 billion to (Won)10 billion	40	0.1%
Over (Won)10 billion to (Won)50 billion		0.0
Over (Won)50 billion to (Won)100 billion		0.0
Over (Won)100 billion		0.0
Sub-total	63	0.1

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Consumer

	Aggregate loan balance	Percentage of total loan balance
	(in billions of Won)	
General purpose household loans [(1)]		
Up to (Won)10 million	(Won) 4,067	4.6%
Over (Won)10 million to (Won)50 million	9,057	10.3
Over (Won)50 million to (Won)100 million	5,908	6.7
Over (Won)100 million to (Won)500 million	6,569	7.4
Over (Won)500 million to (Won)1 billion	899	1.0
Over (Won)1 billion to (Won)5 billion	216	0.2
Over (Won)5 billion to (Won)10 billion	28	0.0
Over (Won)10 billion to (Won)50 billion	15	0.0
Over (Won)50 billion		0.0
Sub-total	26,758	30.3
Mortgage		
Up to (Won)10 million	(Won) 62	0.1%
Over (Won)10 million to (Won)50 million	1,190	1.4
Over (Won)50 million to (Won)100 million	1,697	1.9
Over (Won)100 million to (Won)500 million	626	0.7
Over (Won)500 million to (Won)1 billion	24	0.0
Over (Won)1 billion		0.0
Sub-total	3,599	4.1
Credit cards		
Up to (Won)10 million	(Won) 3,886	4.4%
Over (Won)10 million to (Won)50 million	75	0.1
Over (Won)50 million to (Won)100 million	1	0.0
Over (Won)100 million	2	0.0
Sub-total	3,964	4.5
Foreign consumer loans		
Up to (Won)10 million		0.0
Over (Won)10 million to (Won)50 million	(Won) 2	0.0
Over (Won)50 million to (Won)100 million	4	0.0
Over (Won)100 million to (Won)500 million	30	0.0
Over (Won)500 million to (Won)1 billion	17	0.0
Over (Won)1 billion to (Won)5 billion	30	0.0
Over (Won)5 billion	1	0.0
Sub-total	84	0.1%
Total	(Won) 88,366	100.0%

(1) Includes home equity loans.

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Maturity Analysis

The following table sets out, as of December 31, 2003, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed are before deduction of allowance for loan losses.

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
		(in billions of Won)		
Domestic				
Corporate				
Commercial and industrial	(Won) 28,806	(Won) 9,440	(Won) 2,396	(Won) 40,642
Lease financing	19	154	23	196
Trade financing	6,922			6,922
Other commercial	3,196	551	507	4,254
Total corporate	38,943	10,145	2,926	52,014
Consumer				
General purpose household [(1)]	14,214	12,417	127	26,758
Mortgage	585	2,780	234	3,599
Credit cards	2,891	1,073		3,964
Total consumer	17,690	16,270	361	34,321
Total domestic	56,633	26,415	3,287	86,335
Foreign				
Corporate				
Commercial and industrial	1,292	243	349	1,884
Lease financing				
Trade financing	63			63
Other commercial				
Total corporate	1,355	243	349	1,947
Consumer:				
Total consumer		84		84
Total foreign	1,355	327	349	2,031
Total loans	(Won) 57,988	(Won) 26,742	(Won) 3,636	(Won) 88,366

(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, 2003, total amount of our loans that have fixed interest rates and variable or adjustable interest rates.

	Domestic	Foreign	Total
		(in billions of Won)	
Fixed rate [1]	(Won) 22,443	(Won) 986	(Won) 23,429
Variable or adjustable rates [2]	63,892	1,045	64,937
Total loans	(Won) 86,335	(Won) 2,031	(Won) 88,366

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

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

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

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

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

Loan Loss Provisioning Policy

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

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

- loans classified as substandard or below according to the Financial Supervisory Commission s asset classification guidelines;
- loans that are 30 days or more past due;

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

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

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

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

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

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

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

For guarantees, we establish allowances using the same method we use to establish allowances for our loans.

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

Non-Accrual Loans and Past Due Accruing Loans

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

Foregone interest is the interest due on non-accrual loans that we have not accrued in our books. If we had not foregone interest of our non-accrual loans, we would have recorded gross interest income of (Won)646 billion, (Won)582 billion and (Won)470 billion for 2001, 2002 and 2003, 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 2001, 2002 and 2003 was (Won)343 billion, (Won)197 billion and (Won)236 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,											
	2000			2001			2002			2003		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in billions of Won)											
Loans accounted for on a non-accrual basis												
Corporate	(Won) 2,727	(Won) 123	(Won) 2,850	(Won) 3,086	(Won) 80	(Won) 3,166	(Won) 1,889	(Won) 91	(Won) 1,990	(Won) 1,732	(Won) 143	(Won) 1,875
Consumer [1]	485		485	624		624	2,506		2,506	2,336		2,336
Sub-total	3,212	123	3,335	3,710	80	3,790	4,405	91	4,496	4,068	143	4,211
Accruing loans which are contractually past due one day or more as to principal or interest [2]												
Corporate	436		436	306		306	270	1	271	26		26
Consumer [1]	25		25	68		68	36		36	16		16
Sub-total	461		461	374		374	306	1	307	42		42
Total	(Won) 3,673	(Won) 123	(Won) 3,796	(Won) 4,084	(Won) 80	(Won) 4,164	(Won) 4,711	(Won) 92	(Won) 4,803	(Won) 4,110	(Won) 143	(Won) 4,253

(1) Includes credit card balances of (Won)329 billion, (Won)702 billion and (Won)793 billion as of December 31, 2001, 2002 and 2003, respectively.

(2) Includes accruing loans that are contractually past due 90 days or more in the amount of (Won)265 billion, (Won)250 billion and (Won)4 billion as of December 31, 2001, 2002 and 2003, respectively.

Loan Aging Schedule

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

As of December 31,	Normal		1-3 months		3-6 months		More than 6 months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
					(in billions of Won)					
2000	(Won) 57,155	95.3%	(Won) 713	1.2%	(Won) 303	0.5%	(Won) 1,781	3.0%	(Won) 59,952	100.0%
2001	57,977	94.9	336	0.5	177	0.3	2,606	4.3	61,096	100.0
2002	77,676(1)	96.9	684(2)	0.8	421(3)	0.5	1,405(4)	1.8	80,186(5)	100.0
2003	86,194(6)	97.5	623(7)	0.7	956(8)	1.1	593(9)	0.7	88,365(10)	100.0

(1) Includes (Won)260 billion and (Won)422 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively.

(2) Includes (Won)9 billion and (Won)90 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that have once again become past due.

(3) Includes (Won)4 billion and (Won)13 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that have once again become past due.

(4) Includes (Won)2 billion of previously delinquent credit card balances restructured into loans that have once again become past due. There were no delinquent cash advances that were replaced with substituted cash advances that once again became past due.

(5) Includes (Won)275 billion and (Won)525 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, of which (Won)15 billion and (Won)13 billion respectively, have once again become past due.

(6) Includes (Won)538 billion of previously delinquent credit card balances restructured into loans. There were no delinquent cash advances that were replaced with substituted cash advances.

(7) Includes (Won)99 billion and (Won)2 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that have once again become past due.

(8) Includes (Won)53 billion and (Won)266 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that have once again become past due.

(9) Includes (Won)7 billion and (Won)66 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that have once again become past due.

(10) Includes (Won)695 billion and (Won)334 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, of which (Won)159 billion and (Won)334 billion, respectively, have once again become past due.

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

Workout is a voluntary procedure through which we, together with borrowers and other creditors, restructure a borrower s credit terms. Between 1998 and 2001, we joined with other financial institutions in Korea in establishing and implementing voluntary workout procedures. On July 18, 2001, the National Assembly of Korea adopted the Corporate Restructuring Promotion Act, which became effective in September 2001 and will expire on December 31, 2005. The Corporate Restructuring Promotion Act replaced the previously established workout procedures. The Act applies to more than 420 financial institutions in Korea, which include 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 must participate in a creditors committee to prepare a restructuring plan. The approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower (as well as 75% of the total outstanding secured debt, if the restructuring plan includes debt restructuring) finalizes the borrower s restructuring plan, including debt restructuring and provision of additional funds. Once approved, the plan is also binding on all the creditor financial institutions of the borrower. Any creditor financial institution that disagrees with the final restructuring plan approved by the creditors committee has 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 fail to come to an agreement on the terms of purchase, a coordination committee consisting of seven experts will be set up to resolve the matter. These procedures may require us to participate in a plan that we do not agree with or may require us to sell our claims at prices that we do not believe are adequate. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio.

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

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

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

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

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

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

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

A portion of our loans to and debt securities of corporate customers are currently in workout or restructuring. As of December 31, 2003, (Won)1,194 billion, or 1.1%, of our total loans and debt securities were in workout or restructuring. This included (Won)1,145 billion of loans to and debt securities of large corporate borrowers in workout or restructuring and (Won)49 billion of loans to and debt securities of small- and medium-sized enterprises in workout or restructuring, which represented 95.9% and 4.1% of our loans to and debt securities of

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such customers and 1.0% and 0.04% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout or restructured loans. At Woori Bank, for example, the corporate finance group manages its workout and restructured loans. Upon approval of a workout or restructuring plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout or restructuring, corporate reorganization or composition, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowances for loan losses.

The following table shows, as of December 31, 2003, our ten largest exposures that were in workout or restructuring, including composition or court receivership.

Company (Domestic Credit Rating) [1]	Won Currency	Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Credit Derivatives	Total Exposures	Collateral	Amounts Classified as Substandard or Below [2]	Amounts Written Off in Debt Restructuring [3]	Allowance
					(in billions of Won)						
Daewoo International Corporation [4]		(Won) 93	(Won) 14		(Won) 151		(Won) 258			(Won) 2	(Won) 1
SK Networks (C)	(Won) 127		60	(Won) 5	2		194	(Won) 4	(Won) 160		78
Hynix Semiconductor [4]		48	95		25		168	4	72	600	43
Daewoo Electronics Corp. [4]	112	6			41		159			3	17
KP Capital [4]		82	44		13		139				2
Daewoo Construction (BBB+)			106	1	10		117				
Hyundai Corporation (C)		63	30		22		115	7	83		32
GM Daewoo Auto & Technology [4]		103					103			391	29
Hyundai Engineering & Construction Co., Ltd. (A)	4	4	49	10	28		95			47	2
Ssangyong Corporation (B-)	19	22	23		16		80		53		25
Total	(Won) 262	(Won) 421	(Won) 421	(Won) 16	(Won) 308		(Won) 1,428	(Won) 15	(Won) 368	(Won) 1,043	(Won) 229

(1) Credit rating as of December 31, 2003, from one of the following Korean credit agencies: Korea Investors Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.

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

(3) Not included in exposures.

(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,											
	2000			2001			2002			2003		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in billions of Won)											
Loans not included in non-accrual and past due loans which are classified as troubled debt restructurings	(Won) 3,816		(Won) 3,816	(Won) 3,476		(Won) 3,476	(Won) 1,286	(Won) 2	(Won) 1,288	(Won) 363	(Won) 3	(Won) 366

For 2003, interest income that we would have recorded under the original contract terms of restructured loans amounted to (Won)40 billion, of which we reflected (Won)13 billion as interest income for 2003.

Potential Problem Loans

As of December 31, 2003, we had (Won)1,120 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

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determine, through our internal loan review process, require close management and increased provisioning due to the borrower s financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business.

Other Problematic Interest Earning Assets

We have received certain other interest earning assets in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. As of December 31, 2003, such assets, which consisted of debt securities, had an aggregate book value of (Won)608 billion and an aggregate market value of (Won)608 billion.

Non-Performing Loans

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

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

(1) Excludes (Won)269 billion and (Won)512 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that were classified as normal or precautionary.
(2) Excludes (Won)635 billion and (Won)2 billion of previously delinquent credit card balances restructured into loans and replaced with substituted cash advances, respectively, that were classified as normal or precautionary.

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 in connection with our joint venture with Lehman Brothers. See Sales of Substandard or Below Loans.

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

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

	As of December 31,					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	(Won) 3,226	53.6%	(Won) 1,768	49.5%	(Won) 1,046	40.3%
Lease financing	288	4.8				
Trade financing	648	10.8	463	12.9	202	7.8
Other commercial	1,334	22.2	751	21.0	193	7.4
Total corporate	5,496	91.4	2,982	83.4	1,441	55.5
Consumer						
General purpose household [(1)]	134	2.2	145	4.0	302	11.6
Mortgage	3		10	0.3	94	3.6
Total consumer	137	2.2	155	4.3	396	15.2
Credit cards	191	3.2	352	8.5	673	26.0
Total domestic	5,824	96.8	3,439	96.2	2,509	96.7
Foreign						
Corporate						
Commercial and industrial	191	3.2	135	3.8	84	3.3
Lease financing						
Trade financing			2			
Other commercial						
Total corporate	191	3.2	137	3.8	84	3.3
Consumer						
Total foreign	191	3.2	137	3.8	84	3.3
Total non-performing loans	(Won) 6,015	100.0%	(Won) 3,576	100.0%	(Won) 2,594	100.0%

(1) Includes home equity loans.

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Top 20 Non-Performing Loans

As of December 31, 2003, our 20 largest non-performing loans accounted for 20.9% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans.

	Gross principal outstanding	Allowance for loan losses	Collateral	Industry
	(in billions of Won)			
Borrower A	(Won) 67	(Won) 7	(Won) 24	Construction
Borrower B	62	32	5	Retail and wholesale
Borrower C	59	39		Other
Borrower D	58	14	56	Manufacturing
Borrower E	58	78	4	Retail and wholesale
Borrower F	49	43	4	Manufacturing
Borrower G	37	25		Retail and wholesale
Borrower H	33	10	5	Manufacturing
Borrower I	19	16	21	Manufacturing
Borrower J	17	11		Retail and wholesale
Borrower K	16	7		Manufacturing
Borrower L	15	9		Retail and wholesale
Borrower M	8	2	8	Manufacturing
Borrower N	8	2	3	Manufacturing
Borrower O	7	3	5	Other
Borrower P	7	7		Retail and wholesale
Borrower Q	7	7		Manufacturing
Borrower R	6	1	5	Manufacturing
Borrower S	6	2		Manufacturing
Borrower T	5	3		Manufacturing
Total	(Won) 542	(Won) 318	(Won) 140	

Non-Performing Loan Strategy

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

Each of our subsidiaries has a unit that is responsible for managing non-performing loans. At Woori Bank, for example, the corporate finance group generally oversees the process for resolving non-performing loans transferred to it by other Woori Bank business units. We believe that by centralizing the management of our non-performing loans within each subsidiary, we can become more effective in dealing with the issues relating to these loans by pooling institutional knowledge and creating a more specialized workforce.

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

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

- 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 venture with Lehman Brothers; and

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

See Sales of Substandard or Below 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 2001, 2002 and 2003, we foreclosed on collateral we obtained with respect to loan balances representing approximately 1% of our average interest bearing loan balances in each of those periods. We believe, based on our general understanding of the U.S. banking industry, that we generally foreclose on collateral somewhat less frequently than similarly situated U.S. banks.

In Korea, there is no legal requirement for financial institutions to maintain a particular loan-to-value ratio. Accordingly, in line with Korean market practice, we do not have an internal policy that requires us to maintain a particular loan-to-value ratio when extending loans to our customers. Korean financial institutions, including us, maintain general policies to assess a potential customer s eligibility for loans based on that entity s credit quality, rather than requiring a particular level of collateral, especially in the case of large corporate borrowers. As a result, the ratio of our collateral to non-performing corporate loans is relatively low when compared with our total exposures. For secured consumer loans, however, we generally impose limits on loan amounts based on the collateral we receive. See Consumer Banking Lending Activities.

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

Sales of Non-Performing Loans

The overall asset quality of our loan portfolio has changed significantly in recent years as a result of sales of non-performing loans. These sales have been made primarily to KAMCO and, more recently, to special purpose companies established in connection with our joint venture with Lehman Brothers.

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

	Year Ended December 31,								
	2001			2002			2003		
Purchaser	Principal Amount Sold [(1)]	Sale Price	Gain (Loss)	Principal Amount Sold	Sale Price	Gain (Loss)	Principal Amount Sold	Sale Price	Gain (Loss)
	(in billions of Won)								
KAMCO	(Won) 611	(Won) 125	(Won) 1	(Won) 325	(Won) 224	(Won) 26	(Won) 515	(Won) 357	
Lehman Brothers joint venture special purpose companies				1,501	364		1,230	242	
Others	730	282	141	33	2	32	1,270	602	(Won) 45
Total	(Won) 1,341	(Won) 407	(Won) 142	(Won) 1,859	(Won) 590	(Won) 58	(Won) 3,015	(Won) 1,201	(Won) 45

Korea Asset Management Corporation

In December 1997, in response to difficulties faced by Korean financial institutions as a result of the severe economic downturn in Korea, the Korean government authorized KAMCO to purchase from those institutions certain assets (which were primarily classified as substandard or below) at discounted prices. From 1997 through December 31, 2003, we and our predecessor entities sold an aggregate of (Won)7,785 billion of substandard or below loans to KAMCO.

Pursuant to the terms of the sales, KAMCO can require us to repurchase any 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, 2003, the aggregate principal amount of loans subject to these repurchase rights was (Won)358 billion. As of that date, we recorded a liability of (Won)135 billion relating to those loans, representing our estimated obligation to make repurchases. See Item 3D. Risk Factors Other risks relating to our business We sold assets with repurchase obligations by us to the Korea Asset Management Corporation and provided substantial amounts of 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.

Joint Venture with Lehman Brothers

In September 2002, we entered into a joint venture arrangement with Lehman Brothers Holdings Inc. to facilitate the disposal of our substandard or below loans. Under the joint venture arrangement, special purpose companies are established to purchase substandard or below loans from us and to securitize such loans by issuing asset-backed securities. The majority (approximately 70%) of the equity of each special purpose company is owned by a third party, an affiliate of Lehman Brothers, which is independent of us. The same third party also holds the majority of the voting rights in that special purpose company. We hold the remainder of the equity and the voting rights in each special purpose company. We account for these equity interests using the equity method of accounting, as we are able to exercise significant influence over the operations of these entities.

While we are not obligated to sell any loans pursuant to the arrangement, affiliates of Lehman Brothers have priority negotiation rights with respect to any sale of substandard or below loans by us. Under the arrangement, an affiliate of Lehman Brothers is required to purchase more than 50% of the asset-backed securities and equity interests issued by any such special purpose company, and our subsidiary, Woori F&I Co., Ltd. is required to purchase the remaining amount. Each special purpose company issued one tranche of asset-backed securities and equity interests. The asset-backed securities were offered in private placements and were not assigned a credit rating. The asset-backed securities that we purchase are classified as investment securities in our financial statements. We continue to hold approximately 30% of the asset-backed securities issued by each special purpose company, which as of December 31, 2003 amounted to (Won)52 billion of bonds and (Won)33 billion of equity investments.

As part of this arrangement, in September 2002, we and an affiliate of Lehman Brothers established a joint venture company, Woori Capital Advisors Asset Management Co., Ltd., to manage the substandard or below loans purchased from us by the special purpose companies. Woori Capital Advisors Asset Management is 51% owned by our subsidiary, Woori F&I, and 49% owned by an affiliate of Lehman Brothers. It receives asset management fees from the special purpose companies, as well as a performance fee based on a percentage of asset resolutions.

In connection with this arrangement, an affiliate of Lehman Brothers has agreed to purchase up to US$250 million of our convertible bonds convertible into shares of our common stock. The amount of these convertible bonds that an affiliate of Lehman Brothers will actually be required to purchase from time to time depends on the amount of substandard or below loans that we sell pursuant to the joint venture arrangement. These convertible bonds have a nominal interest rate of zero percent and mature three years from the issue date. The bonds become convertible one year after the issue date, and are convertible until one month before maturity. The conversion price for the bonds is set upon issue, at a level equal to 115% of the prevailing market price of our common stock. We issued an aggregate of US$52 million of convertible bonds with conversion prices of (Won)5,588 and (Won)7,313 to an affiliate of Lehman Brothers in September and December 2002, US$39 million and (Won)20 billion of convertible bonds with a conversion price of (Won)5,380 in March 2003 and an additional US$1 million of convertible bonds with a conversion price of (Won)7,228 in July 2003. Although these convertible bonds have a nominal interest rate of zero percent, Lehman Brothers will receive a guaranteed yield upon maturity ranging from approximately 2.2% to 3.7% if it chooses not to exercise the conversion option.

From September 2002 through the end of 2003, we sold substandard or below loans with an aggregate outstanding principal balance of (Won)3.4 trillion, all of which were sold to a special purpose company under the joint venture arrangement, and received proceeds of (Won)756 billion from those sales.

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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,									
	1999		2000		2001		2002		2003	
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	(Won) 1,979	39.8%	(Won) 2,934	45.4%	(Won) 2,085	48.2%	(Won) 1,724	45.7%	(Won) 926	32.7%
Lease financing			276	4.3	187	4.3	13	0.4	2	0.1
Trade financing	1,293	26.0	891	13.8	638	14.8	542	14.4	222	7.8
Other commercial	1,303	26.2	1,965	30.4	919	21.3	528	14.0	140	4.9
Total corporate	4,575	92.0	6,066	93.9	3,829	88.6	2,807	74.5	1,290	45.5
Consumer										
General purpose household [(1)]	48	1.0	58	0.9	70	1.6	117	3.1	232	8.2
Mortgage	3	0.1	6	0.1	3	0.1	5	0.1	29	1.0
Total consumer	51	1.1	64	1.0	73	1.7	122	3.2	261	9.2
Credit cards	35	0.7	68	1.1	219	5.0	656	17.4	1,120	39.6
Total domestic	4,661	93.8	6,198	96.0	4,121	95.3	3,585	95.1	2,671	94.3
Foreign										
Corporate										
Commercial and industrial	305	6.1	258	4.0	139	3.2	184	4.9	161	5.7
Lease financing										
Trade financing	5	0.1	1		63	1.5	1			
Other commercial										
Total corporate	310	6.2	259	4.0	202	4.7	185	4.9	161	5.7
Consumer									1	
Total foreign	310	6.2	259	4.0	202	4.7	185	4.9	162	5.7
Total allowance for loan losses	(Won) 4,971	100.0%	(Won) 6,457	100.0%	(Won) 4,323	100.0%	(Won) 3,770	100.0%	(Won) 2,834	100.0%

(1) Includes home equity loans.

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

	Year ended December 31,			
	2000	2001	2002	2003
	(in billions of Won)			
Balance at the beginning of the period	(Won) 4,971	(Won) 6,457	(Won) 4,323	(Won) 3,770
Amounts charged against income	1,434	1,114	1,247	2,313
Allowance relating to guarantees and acceptances transferred to loans	96	316	168	271
Allowance relating to loans acquired in acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea	1,960		43	3
Gross charge-offs				
Domestic				
Corporate				
Commercial and industrial	(612)	(700)	(303)	(676)
Lease financing			(3)	(9)
Trade financing	(288)	(387)	(108)	(231)
Other commercial	(705)	(1,363)	(319)	(191)
Total corporate	(1,605)	(2,450)	(733)	(1,108)
Consumer				
General purpose household [1]	(25)	(33)	(16)	(84)
Mortgage			(1)	(1)
Total consumer	(25)	(33)	(17)	(85)
Credit cards	(175)	(236)	(475)	(1,384)
Total domestic	(1,805)	(2,719)	(1,225)	(2,577)
Foreign	(124)	(235)	(76)	(159)
Allowance relating to loans sold	(237)	(626)	(964)	(1,653)
Total gross charge-offs [2]	(2,166)	(3,580)	(2,265)	(4,388)
Recoveries:				
Domestic				
Corporate				
Commercial and industrial	(Won) 46	(Won) 9	(Won) 257	(Won) 539
Lease financing			9	
Trade financing	16	3	32	50
Other commercial	56	2	11	237
Total corporate	118	14	309	826
Consumer				
General purpose household [1]	17	7	10	2
Mortgage	1	1		
Total consumer	18	8	10	2
Credit cards	6	2	61	17
Total domestic	142	24	380	845

Foreign	8	1	3	2
Total recoveries [3]	150	25	383	847
Net charge-offs	(2,016)	(3,555)	(1,882)	(3,542)
Allowance related to loans transferred to held-for-sale			(141)	
Foreign exchange translation effects	12	(9)	12	18
Balance at the end of the period	(Won) 6,457	(Won) 4,323	(Won) 3,770	(Won) 2,834
Ratio of net charge-offs during the period to average loans outstanding during the period [4]	5.95%	6.84%	3.08%	4.17%

(1) Includes home equity loans.
(2) In 1999, our total gross charge-offs amounted to (Won)837 billion.
(3) In 1999, our total gross recoveries amounted to (Won)52 billion.
(4) 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 six months;
- payments outstanding on corporate and consumer loans (other than credit card receivables) that have been overdue for more than 12 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 a loan, loan management business units at each of our banking subsidiaries work together with the business units in charge of investigating charged-off loans and financial planning. Together, they submit, on a quarterly basis, a list of loans to be charged off to the Audit Committee of the relevant subsidiary for review and internal approval. After internal approval is received, this list is submitted to the Financial Supervisory Service for tax credit recognition purposes. With respect to unsecured consumer loans and credit card receivables, however, we follow a different procedure relating to the length of time overdue amounts have been outstanding. Specifically, we charge off all unsecured consumer loans that are overdue for more than 12 months and all credit card receivables that are overdue for more than six months.

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 Supervisory Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. As of February 2004, 188 financial institutions in Korea were parties to this agreement. Upon application to the Credit Counseling and Recovery Service and approval of a majority of unsecured and two-thirds of secured creditor financial institutions, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)300 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit.

Furthermore, in March 2004, the Korean National Assembly passed the Individual Debtor Rehabilitation Law, which becomes effective in September 2004. Under this law, a qualified individual debtor with outstanding debts in an amount within (Won)1 billion for secured debt and/or (Won)500 million for unsecured debt, to be determined by the Supreme Court, may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors.

In addition, in May 2004, the Korean government implemented a so-called bad bank program for delinquent consumer debt by establishing Badbank Harmony Co., Ltd., pursuant to an agreement among approximately 620 financial institutions in Korea. Badbank Harmony, whose assets are managed by KAMCO, was incorporated by KAMCO with paid-in capital of (Won)100 million and will be further capitalized by contributions from various financial institutions in Korea, including us. The program is available to individual borrowers with payment obligations to two or more financial institutions that are overdue by one month or more (of which at least one payment obligation is overdue by six months or more) in an aggregate amount less than (Won)50 million as of March 10, 2004. Under the program, during a three-month period starting from May 20, 2004, qualified credit delinquent persons may restructure their debt and rehabilitate their credit by obtaining a long-term, low-interest loan from Badbank Harmony and using the proceeds of such loan to pay off their existing debts.

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

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privately capitalized funds that we consider to have a low credit risk. A significant portion of our investment securities comprise KDIC debentures that we received pursuant to the KDIC s recapitalization of our predecessor entities. As of December 31, 2003, we owned (Won)8,501 billion of these debentures, which represent 32.7% of our investment securities. See Item 4A. History and Development of the Company Establishment of Woori Finance Holdings.

Our securities investments are subject to various guidelines, including limitations prescribed under the Bank Act. Under these regulations, each of our subsidiaries must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and 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 subsidiaries and their respective trust accounts is also 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 Stockholder, in excess of an amount determined by the Enforcement Decree within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

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

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

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

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

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Book Value and Market Value

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

	As of December 31,					
	2001		2002		2003	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)					
Trading securities						
Equity securities	(Won) 120	(Won) 120	(Won) 179	(Won) 179	(Won) 271	(Won) 271
Beneficiary certificates	362	362	399	399	307	307
Debt securities						
Korean treasury securities and government agency securities	2,179	2,179	1,601	1,601	1,823	1,823
Debt securities issued by financial institutions	343	343	532	532	501	501
Corporate debt securities	917	917	720	720	920	920
Total Trading	3,921	3,921	3,431	3,431	3,822	3,822
Available-for-sale securities						
Equity securities	(Won) 301	(Won) 301	(Won) 217	(Won) 217	(Won) 280	(Won) 280
Beneficiary certificates	1,060	1,060	1,017	1,017	391	391
Debt securities						
Korean treasury securities and government agency securities	5,276	5,276	6,463	6,463	6,618	6,618
Debt securities issued by financial institutions	782	782	1,709	1,709	2,248	2,248
Corporate debt securities	1,320	1,320	1,289	1,289	2,757	2,757
Debt securities issued by foreign governments	81	81	151	151	114	114
Total Available-for-sale	8,820	8,820	10,846	10,846	12,408	12,408
Held-to-maturity securities						
Debt securities						
Korean treasury securities and government agency securities	10,197	10,782	8,913	9,406	8,466	8,803
Debt securities issued by financial institutions	581	590	660	650	806	808
Corporate debt securities	419	422	367	372	490	492
Debt securities issued by foreign governments	5	5	19	20	39	40
Total Held-to-maturity	11,202	11,799	9,959	10,448	9,801	10,143
Total securities	(Won) 23,943	(Won) 24,540	(Won) 24,236	(Won) 24,725	(Won) 26,031	(Won) 26,373

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2003.

	As of December 31, 2003									
	Within 1 year		Over 1 but Within 5 years		Over 5 but Within 10 years		Over 10 years		Total	
	(in billions of Won)									
	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)	Amount	Weighted Average Yield (1)
Trading securities										
Korean treasury securities and government agencies	(Won) 604	4.36%	(Won) 1,199	4.91%	(Won) 19	5.47%	(Won) 1	5.37%	(Won) 1,823	4.79%
Debt securities issued by financial institutions	450	4.62%	51	4.97%					501	4.69%
Corporate debt securities	543	5.92%	353	6.75%	24	4.82%			920	6.36%
Total	(Won) 1,597	4.43%	(Won) 1,603	4.63%	(Won) 43	4.45%	(Won) 1	4.91%	(Won) 3,244	4.55%
Available-for-sale securities										
Korean treasury securities and government agency	(Won) 1,864	4.27%	(Won) 4,723	4.68%	(Won) 31	5.48%			(Won) 6,618	4.57%
Debt securities issued by financial institutions	1,388	4.45%	879	3.57%	128	4.01%	(Won) 53	3.20%	2,248	4.13%
Corporate debt securities	1,005	5.11%	1,693	5.89%	57	6.70%	2	3.25%	2,757	5.62%
Debt securities issued by foreign governments			40	3.76%	16	2.74%	58	4.63%	114	4.06%
Total	(Won) 4,257	4.53%	(Won) 7,135	4.85%	(Won) 232	4.78%	(Won) 113	3.93%	(Won) 11,737	4.72%
Held-to-maturity securities										
	(Won) 646	4.27%	(Won) 7,780	5.00%	(Won) 28	5.27%	(Won) 12	5.47%	(Won) 8,466	4.86%

Korean treasury securities and government agencies										
Debt securities issued by financial institutions	441	4.28%	351	4.96%	14	3.08%			806	4.53%
Corporate debt securities	134	5.64%	346	6.15%	10	5.70%			490	5.91%
Debt securities issued by foreign governments	6	0.77%	27	13.38%	6	4.40%			39	10.21%
Total	(Won) 1,227	4.41%	(Won) 8,504	5.15%	(Won) 58	4.72%	(Won) 12	5.47%	(Won) 9,801	4.93%

(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).

Risk Concentrations

As of December 31, 2003, 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, 2003, our stockholders equity was (Won)3,656 billion.

	As of December 31, 2003	
	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
KDIC	(Won) 8,501	(Won) 8,755
Bank of Korea	3,744	3,745
Korean government	2,985	3,060
The Korea Development Bank	737	739
Kookmin Bank	697	696
Total	(Won) 16,664	(Won) 16,995

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

Funding

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

Customer deposits are our principal funding source. Customer deposits accounted for 75.6% of our total funding as of December 31, 2001, 73.6% of our total funding as of December 31, 2002 and 75.4% of our total funding as of December 31, 2003.

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, 2003, approximately 88.7% of our total funding was denominated in Won.

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Deposits

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

	For the year ended December 31,					
	2001		2002		2003	
	Average Balance (1)	Average Rate Paid	Average Balance (1)	Average Rate Paid	Average Balance (1)	Average Rate Paid
	(in billions of Won)					
Demand deposits:						
Non-interest bearing	(Won) 2,665		(Won) 3,020		(Won) 2,814	
Interest bearing	15,208	1.87%	18,862	1.15%	20,443	0.67%
Time deposits (2)						
Certificates	1,327	6.41	626	4.79	1,716	4.37
Other time deposits	38,789	6.61	41,296	5.09	48,159	4.52
Savings deposits	6,098	4.26	7,514	3.70	9,178	3.20
Mutual installment deposits (3)	755	7.81	944	7.63	959	6.26
Average total deposits	(Won) 64,842	5.02%	(Won) 72,262	3.74%	(Won) 83,269	3.30%

(1) Average balances are based on daily balances for all of our subsidiaries, except for Woori F&I, Woori CA Asset Management, Woori Finance Information System, Woori Credit Information and our special purpose companies, which are based on quarterly balances.
(2) The majority of time deposits issued by our overseas branches as of December 31, 2003 was in amounts in excess of US$100,000.
(3) 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 Retail Banking Lending Activities Mortgage and Home Equity Lending and Retail Banking Deposit-Taking Activities.

Maturities of Certificates of Deposit and Other Time Deposits

The following table presents, as of December 31, 2003, the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had fixed maturities in excess of (Won)100 million.

	As of December 31, 2003			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	(Won) 1,245	(Won) 8,258	(Won) 25	(Won) 9,528
After three but within six months	2,179	5,584	8	7,771
After six but within 12 months	348	7,966	18	8,332
After 12 months		4,446	18	4,464
Total	(Won) 3,772	(Won) 26,254	(Won) 69	(Won) 30,095

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Long-Term Debt

The aggregate amount of contractual maturities of all long-term debt at December 31, 2003 was as follows:

	Amount
	(in billions of Won)
Due in 2004	(Won)3,578
Due in 2005	2,533
Due in 2006	2,392
Due in 2007	1,107
Due in 2008	1,926
Thereafter	4,047
Gross long-term debt	15,583
Less: discount	(666)
Total long-term debt, net	(Won)14,917

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,		
	2001	2002	2003
		(in billions of Won)	
Call money			
Year-end balance	(Won) 503	(Won) 804	(Won) 412
Average balance (1)	903	1,160	1,077
Maximum balance	1,220	1,964	1,741
Average interest rate (2)	4.32%	3.28%	3.25%
Year-end interest rate	0.4%-3.90%	0.4%-4.35%	1.1%-4.0%
Borrowings from the Bank of Korea (3)			
Year-end balance	(Won) 1,559	(Won) 1,278	(Won) 1,670
Average balance (1)	2,219	1,218	1,307
Maximum balance	3,201	1,364	1,433
Average interest rate (2)	4.51%	2.46%	2.52%
Year-end interest rate	2.89%-6.21%	1.43%-2.50%	1.32%-2.50%
Other short-term borrowings (4)			
Year-end balance	(Won) 6,405	(Won) 10,048	(Won) 7,675

Average balance [1]	5,862	6,640	8,024
Maximum balance	6,405	10,048	11,186
Average interest rate [2]	7.52%	4.17%	3.49%
Year-end interest rate	4.68%-7.14%	0.38%-5.90%	0.37%-4.68%

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

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

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

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

Secured Borrowings

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

See Note 19 of the notes to our consolidated financial statements for a summary of our secured borrowings and relevant collateral as of December 31, 2001, 2002 and 2003.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

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

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

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

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

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

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

The Financial Holding Company Act requires every financial holding company and its subsidiaries to obtain prior approval from, or file a prior report with, the Financial Supervisory Commission before acquiring control of another company. In addition, the Financial Supervisory Commission must grant permission to liquidate or to merge with any other company before the liquidation or merger. A financial holding company must report to the Financia