WOORI FINANCE HOLDINGS CO LTD
Form 20-F
June 30, 2005
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As filed with the Securities and Exchange Commission on June 30, 2005

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, 2004

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 001-31811

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing three shares of Common Stock	New York Stock Exchange Inc.

Common Stock, par value (Won)5,000 per share	New York Stock Exchange Inc.*

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

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

None

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

None

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

795,993,011 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

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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, 2003 and 2004 has been prepared in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP.

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

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

In this annual report:

- references to we, us or Woori Finance Holdings are to Woori Finance Holdings Co., Ltd. and, unless the context otherwise requires, its subsidiaries;
- references to Korea or to the Republic are to the Republic of Korea;
- references to the government are to the government 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 annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2004, which was (Won)1,035.1 = 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 and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, predict, positioned, project, risk, seek to, shall, should, will, will likely result, will pursue, plan and words and terms of sin connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 5. Operating and Financial Review and Prospects and Item 4B. Business Overview regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

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

- our ability to successfully implement our strategy;
- 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. For example, revenues could decrease, costs could increase, capital costs could increase, capital investment could be delayed and anticipated improvements in performance might not be fully realized.

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

- general economic and political conditions in Korea;
- 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;

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- changes in domestic and foreign laws, regulations and taxes;

- changes in competition and the pricing environments in Korea; and

- regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGERS AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

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, 2003 and 2004 have been derived from our audited consolidated financial statements, which have been prepared in accordance with U.S. GAAP and audited by Deloitte HanaAnjin LLC, an independent registered public accounting firm.

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

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Consolidated Income Statement Data

	Year ended December 31,					
	2000 [1]	2001	2002	2003	2004	2004 [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	(Won) 7,235	US$ 6,990
Interest expense	4,406	4,764	3,991	4,117	3,809	3,680
Net interest income	1,513	2,416	2,959	3,403	3,426	3,310
Provision for loan losses	1,434	1,114	1,247	2,313	652	630
Provision for guarantees and acceptances (reversal of provision) [3]	(239)	(159)	106	201	43	41
Other provision (reversal of provision) [4]	68	173	146	102	(6)	(6)
Non-interest income	736	1,046	1,784	1,435	1,953	1,887
Non-interest expense	1,736	2,080	2,579	2,636	2,809	2,714
Income tax expense (benefit)	62	323	363	254	(392)	(378)
Minority interest income	3	4	6	4	1	1
Income (loss) from continuing operations	(815)	(73)	296	(672)	2,272	2,195
Income (loss) from discontinued operations [5]		(59)	718			
Extraordinary gain					63	61
Net income (loss)	(815)	(132)	1,014	(672)	2,335	2,256
Other comprehensive income (loss), net of tax	(89)	41	(182)	97	107	104
Comprehensive income (loss)	(Won) (904)	(Won) (91)	(Won) 832	(Won) (575)	(Won) 2,442	US$ 2,360
Per common share data:						
Net income (loss) per share basic	(Won) (1,120)	(Won) (182)	(Won) 1,353	(Won) (871)	(Won) 3,001	US$ 2.90
Income (loss) per share from continuing operations basic	(1,121)	(100)	395	(871)	2,920	2.82
Income (loss) per share from discontinued operations basic	1	(82)	958			
Extraordinary item basic					81	0.08
Weighted average common shares outstanding basic (in thousands)	727,459	727,459	749,383	771,724	778,167	778,167
Net income (loss) per share diluted [6]	(1,120)	(182)	1,349	(871)	2,926	2.83
Income (loss) per share from continuing operations diluted	(1,121)	(100)	394	(871)	2,848	2.75
Income (loss) per share from discontinued operations diluted	1	(82)	955			
Extraordinary item diluted					78	0.08
Weighted average common shares outstanding diluted (in thousands)	727,459	730,963	751,785	778,392	799,233	799,233
Cash dividends paid per share [7]			(Won) 250	(Won) 100	(Won) 150	US$ 0.14

(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 Item 5. Operating and Financial Review and Prospects Overview Acquisitions and Dispositions.

(2)

Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US$1.00, the noon buying rate in effect on December 31, 2004 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.

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

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

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(6) In the diluted earnings per share calculation, our convertible bonds and warrants outstanding as of December 31, 2002 and, in the case of convertible bonds, outstanding as of December 31, 2004 are assumed to have been converted into shares of our common stock, while outstanding options to purchase our common stock as of December 31, 2002, 2003 and 2004 are not deemed to have been exercised. 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. With respect to the 2004 fiscal year, we paid dividends in 2005 of (Won)150 per common share ($0.14 per common share at the noon buying rate in effect on December 31, 2004) to our stockholders, including the KDIC. See Item 8A. Consolidated Statements and Other Financial Information Dividends.

Consolidated Balance Sheet Data

	As of December 31,					
	2000	2001	2002	2003	2004	2004 [1]
	(in billions of Won)					(in millions of US$)
Assets						
Cash and cash equivalents	(Won) 3,980	(Won) 3,508	(Won) 2,852	(Won) 2,550	(Won) 2,311	US$ 2,233
Restricted cash	1,975	1,895	3,076	3,222	2,392	2,311
Interest-earning deposits in other banks	535	1,687	1,826	1,640	990	957
Call loans and securities purchased under resale agreements	2,132	3,573	629	1,127	1,499	1,448
Trading assets	3,505	4,130	3,790	4,291	6,989	6,752
Available-for-sale securities	8,233	8,820	10,846	12,408	12,302	11,885
Held-to-maturity securities (fair value of (Won)12,186 billion in 2000, (Won)11,799 billion in 2001, (Won)10,448 billion in 2002, (Won)10,143 billion in 2003 and (Won)8,763 billion ($8,466 million) in 2004)	11,713	11,202	9,959	9,801	8,406	8,121
Other investment assets [2]	532	911	731	793	1,138	1,100
Loans (net of allowance for loan losses of (Won)6,457 billion in 2000, (Won)4,323 billion in 2001, (Won)3,770 billion in 2002, (Won)2,834 billion in 2003 and (Won)1,806 billion ($1,745 million) in 2004)	53,533	56,817	76,485	85,587	88,705	85,697
Due from customers on acceptances	1,898	569	461	421	338	326
Premises and equipment, net	2,321	2,195	2,249	2,151	2,110	2,038
Accrued interest and dividends receivable	693	694	672	747	558	539
Assets held for sale	1,539	1,207	240		26	25
Goodwill				25	22	21
Other assets [3]	4,846	3,475	3,227	2,850	3,128	3,022
Total assets	(Won) 97,435	(Won) 100,683	(Won) 117,043	(Won) 127,613	(Won) 130,914	US$ 126,475
Liabilities						
Deposits						
Interest-bearing	(Won) 60,988	(Won) 65,511	(Won) 75,190	(Won) 85,482	(Won) 86,339	US$ 83,412
Non-interest-bearing	4,537	3,582	3,408	3,521	3,714	3,588
Total deposits	65,525	69,093	78,598	89,003	90,053	87,000
Call money	214	503	804	412	689	666
Trading liabilities	321	148	322	473	1,628	1,573
Acceptances outstanding	1,898	569	461	421	338	326

Other borrowed funds	9,281	7,964	11,326	9,345	9,115	8,806
Secured borrowings	4,207	4,914	4,756	4,321	2,352	2,273
Long-term debt	7,764	8,947	11,305	14,917	15,662	15,131
Accrued interest payable	1,652	1,548	1,528	1,618	1,713	1,655
Liabilities held for sale	2,727	1,584	152			
Other liabilities [4]	4,451	3,074	3,555	3,218	2,862	2,764
Total liabilities	98,040	98,344	112,807	123,728	124,412	120,194
Minority interest	30	31	279	229	38	36
Total stockholders equity (deficit)	(635)	2,308	3,957	3,656	6,464	6,245
Total liabilities, minority interest and stockholders equity	(Won) 97,435	(Won) 100,683	(Won) 117,043	(Won) 127,613	(Won) 130,914	US$ 126,475

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(1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,035.1 to US$1.00, the noon buying rate in effect on December 31, 2004 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	2004
	(in billions of Won, except percentages)				
Return on average assets [2]	(1.11)%	(0.14)%	0.95%	(0.56)%	1.81%
Return on average equity [2][3]	N/M	(61.68)	21.21	(17.17)	50.69
Net interest spread [4]	1.83	2.65	2.93	2.88	2.68
Net interest margin [5]	2.26	2.81	3.07	3.01	2.84
Cost-to-income ratio [6]	77.19	60.08	54.37	54.49	52.20
Average stockholders equity as a percentage of average total assets	(0.60)	0.23	4.47	3.25	3.56
Total revenue [7]	(Won) 6,655	(Won)8,226	(Won) 8,734	(Won) 8,955	(Won) 9,188
Operating expense [8]	6,142	6,844	6,570	6,753	6,617
Operating margin [9]	513	1,382	2,164	2,202	2,571
Operating margin as a percentage of total revenue	7.71%	16.80%	24.78%	24.59%	27.98%

(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 Item 5. Operating and Financial Review and Prospects 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	2004
	(in billions of Won)				
Interest and dividend income	(Won) 5,919	(Won) 7,180	(Won) 6,950	(Won) 7,520	(Won) 7,235
Non-interest income	736	1,046	1,784	1,435	1,953

Total revenue	(Won) 6,655	(Won) 8,226	(Won) 8,734	(Won) 8,955	(Won) 9,188

(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, (Won)2,616 billion and (Won)689 billion for 2000, 2001, 2002, 2003 and 2004, respectively.

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The following table shows how operating expense is calculated:

	Year ended December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won)				
Interest expense	(Won) 4,406	(Won) 4,764	(Won) 3,991	(Won) 4,117	(Won) 3,809
Non-interest expense	1,736	2,080	2,579	2,636	2,809
Operating expense	(Won) 6,142	(Won) 6,844	(Won) 6,570	(Won) 6,753	(Won) 6,618

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

Asset Quality Data

	As of December 31,				
	2000	2001	2002	2003	2004
	(in billions of Won)				
Total loans	(Won) 60,086	(Won) 61,192	(Won) 80,226	(Won) 88,392	(Won) 90,489
Total non-performing Loans [1]	9,664	6,015	3,576	2,594	2,071
Other impaired loans not included in non-performing loans	2,483	3,435	3,143	1,861	1,129
Total non-performing loans and other impaired loans	12,147	9,450	6,719	4,455	3,200
Total allowance for loan losses	6,457	4,323	3,770	2,834	1,806
Non-performing loans as a percentage of total loans	16.08%	9.83%	4.46%	2.93%	2.29%
Non-performing loans as a percentage of total assets	9.92	5.97	3.05	2.03	1.58
Total non-performing loans and other impaired loans as a percentage of total loans	20.22	15.44	8.37	5.04	3.54
Allowance for loan losses as a percentage of total loans	10.75	7.07	4.70	3.21	2.00

(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, 2004 for our business segments:

	Woori Bank [1]	Kyongnam Bank	Kwangju Bank	Credit card operations	Securities brokerage services [2]	Other	Elimination [3]	Total
	(in billions of Won)							
Interest and dividend income	(Won) 5,587	(Won) 657	(Won) 531	(Won) 301	(Won) 26	(Won) 46	(Won) (162)	(Won) 6,986
Interest expense	2,847	315	279	82	4	172	(52)	3,647
Net interest income (loss)	2,740	342	252	219	22	(126)	(110)	3,339
Provision for loan losses, guarantees and acceptances (reversal of provision)	553	101	60	547	3	(2)	147	1,409
Non-interest income	5,866	134	82	300	153	1,848	(1,551)	6,832
Non-interest expenses	6,562	256	166	228	160	271	(364)	7,279
Net non-interest income (loss)	(696)	(122)	(84)	72	(7)	1,577	(1,187)	(447)
Depreciation and amortization	96	7	8	2	10	109	16	248
Net income (loss) before tax	1,395	112	100	(258)	2	1,344	(1,460)	1,235
Income tax expense (benefit)	(393)	3	28		1	11	293	(57)
Minority interest	1					2	(4)	(1)
Net income (loss) for the period under Korean GAAP	1,787	109	72	(258)	1	1,331	(1,749)	1,293
U.S. GAAP adjustments	158	6	(30)	499	1	(1,326)	1,734	1,042
	(Won) 1,945	(Won) 115	(Won) 42	(Won) 241	(Won) 2	(Won) 5	(Won) (15)	(Won) 2,335

Consolidated net income								
Segments total assets under Korean GAAP	(Won) 106,743	(Won) 12,043	(Won) 9,891	(Won) 1,766	(Won) 6,153	(Won) 10,370	(Won) (10,335)	(Won) 136,631
U.S. GAAP adjustments	(705)	(41)	17	(28)	(5,223)	(2,698)	2,961	(5,717)
Segments total assets	(Won) 106,038	(Won) 12,002	(Won) 9,908	(Won) 1,738	(Won) 930	(Won) 7,672	(Won) (7,374)	(Won) 130,914

(1) Does not include the former credit card operations of Woori Credit Card, which was merged with Woori Bank in March 2004. Such operations are included in the credit card operations segment.

(2) Includes the operations of Woori Securities and LGIS, in which we acquired a 27.3% controlling voting interest in October and December 2004. As a result of this acquisition, LGIS became a consolidated subsidiary under Korean GAAP (but not under U.S. GAAP) effective December 24, 2004. Because the acquisition occurred toward the end of 2004, income statement data under Korean GAAP for this segment does not reflect the full-year results of operations of LGIS for 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 2002, 2003 and 2004:

	Year ended December 31,								
	2002			2003			2004		
	Average Balance [1]	Interest Income [2][3]	Average Yield	Average Balance [1]	Interest Income [2][3]	Average Yield	Average Balance [1]	Interest Income [2][3]	Average Yield
	(in billions of Won)								
Assets									
Interest-earning assets									
Interest-earning deposits in other banks	(Won) 2,058	(Won) 86	4.18%	(Won) 2,161	(Won) 73	3.38%	(Won) 1,208	(Won) 37	3.06%
Call loans and securities purchased under resale agreements	1,267	42	3.31	1,507	45	2.99	1,590	42	2.64
Trading securities [4]	4,062	215	5.29	3,950	202	5.11	4,478	163	3.64
Investment securities [4]	18,481	1,458	7.89	20,465	1,378	6.73	23,451	1,319	5.62
Loans									
Commercial and industrial	32,401	2,081	6.42	39,420	2,466	6.26	43,799	2,738	6.25
Lease financing	432	18	4.17	223	12	5.38	158	8	5.30
Trade financing	5,962	366	6.14	6,828	321	4.70	7,191	233	3.25
Other commercial	5,466	403	7.37	4,889	356	7.28	4,623	319	6.90
General purpose household [5]	20,799	1,523	7.32	26,874	1,814	6.75	28,370	1,834	6.47
Mortgage	1,713	123	7.18	3,066	196	6.39	4,086	233	5.70
Credit cards [3]	3,844	635	16.52	3,567	657	18.42	1,559	309	19.82
Total Loans [6]	70,617	5,149	7.29	84,867	5,822	6.86	89,786	5,674	6.32
Total average interest-earning assets	96,485	6,950	7.20	112,950	7,520	6.66	120,513	7,235	6.00
Non-interest-earning assets									
Cash and cash equivalents	3,165			3,818			4,080		
Foreign exchange contracts and derivatives	262			403			565		
Premises and equipment	2,316			2,171			2,116		
Due from customers on acceptance	1,287			426			379		
Allowance for loan losses	(4,374)			(3,209)			(2,477)		
Other non-interest-earning assets [7]	7,908			4,034			4,101		
Total average non-interest-earning assets	10,564			7,643			8,764		

Total average assets	(Won) 107,049	(Won) 6,950	6.49	(Won) 120,593	(Won) 7,520	6.24	(Won) 129,277	(Won) 7,235	5.60

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	Year ended December 31,								
	2002			2003			2004		
	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) 18,862	(Won) 216	1.15%	(Won) 20,443	(Won) 136	0.67%	(Won) 19,498	(Won) 106	0.54%
Savings deposits	7,514	278	3.70	9,178	294	3.20	10,418	289	2.77
Certificate of deposit accounts	626	30	4.79	1,716	75	4.37	4,705	194	4.12
Other time deposits	41,296	2,104	5.09	48,159	2,178	4.52	50,936	1,949	3.83
Mutual installment deposits	944	72	7.63	959	60	6.26	859	41	4.77
Total deposits	69,242	2,700	3.90	80,455	2,743	3.41	86,416	2,579	2.98
Call money	1,160	38	3.28	1,077	35	3.25	1,000	30	3.00
Borrowings from the Bank of Korea	1,218	30	2.46	1,307	33	2.52	1,292	30	2.32
Other short-term borrowings	6,640	277	4.17	8,024	280	3.49	8,328	213	2.56
Secured borrowings	5,001	287	5.74	4,995	259	5.19	2,415	125	5.18
Long-term debt	10,122	659	6.51	13,157	767	5.83	15,301	831	5.43
Total average interest-bearing liabilities	93,383	3,991	4.27	109,015	4,117	3.78	114,752	3,809	3.32
Non-interest-bearing liabilities									
Demand deposits	3,020			2,814			3,533		
Foreign exchange contracts and derivatives	198			355			638		
Acceptances outstanding	1,287			426			379		
Other non-interest-bearing liabilities	4,381			4,069			5,369		
Total average non-interest-bearing liabilities	8,886			7,664			9,919		
Total average liabilities	102,269	3,991	3.90	116,679	4,117	3.53	124,671	3,809	3.06
Average stockholders equity	4,780			3,914			4,606		
Total average liabilities and stockholders equity	(Won) 107,049	(Won) 3,991	3.73	(Won) 120,593	(Won) 4,117	3.41	(Won) 129,277	(Won) 3,809	2.95

(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 are subject to repayment on the following payment due date.

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Analysis of Changes in Net Interest Income Volume and Rate Analysis

The following tables provide an analysis of changes in interest income, interest expense and net interest income between changes in volume and changes in rates for 2003 compared to 2002 and 2004 compared to 2003. Information is provided with respect to: (1) effects attributable to changes in volume (changes in volume multiplied by prior rate) and (2) effects attributable to changes in rate (changes in rate multiplied by prior volume). Changes attributable to the combined impact of changes in rate and volume have been allocated proportionately to the changes due to volume changes and changes due to rate changes.

	2003 vs. 2002 Increase/(decrease) due to changes in			2004 vs. 2003 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) 5	(Won) (18)	(Won) (13)	(Won) (32)	(Won) (4)	(Won) (36)
Call loans and securities purchased under resale agreements	6	(3)	3	3	(6)	(3)
Trading securities	(6)	(7)	(13)	27	(66)	(39)
Investment securities	220	(300)	(80)	200	(259)	(59)
Loans						
Commercial and industrial	437	(52)	385	276	(4)	272
Lease financing	(14)	8	(6)	(3)	(1)	(4)
Trade financing	74	(119)	(45)	17	(105)	(88)
Other commercial	(42)	(5)	(47)	(19)	(18)	(37)
General purpose household [(1)]	397	(106)	291	101	(81)	20
Mortgage	85	(12)	73	65	(28)	37
Credit cards	(37)	59	22	(370)	22	(348)
Total interest income	1,125	(555)	570	265	(550)	(285)
Interest-bearing liabilities						
Deposits						
Demand deposits	20	(100)	(80)	(5)	(25)	(30)
Savings deposits	40	(24)	16	39	(44)	(5)
Certificate of deposit accounts	47	(2)	45	131	(12)	119
Other time deposits	230	(156)	74	124	(352)	(228)
Mutual installment deposits	1	(13)	(12)	(6)	(13)	(19)
Call money	(2)	(1)	(3)	(3)	(2)	(5)
Borrowings from the Bank of Korea	2	1	3		(3)	(3)
Other short-term borrowings	13	(11)	2	11	(78)	(67)
Secured borrowings		(28)	(28)	(134)		(134)
Long-term debt	166	(58)	108	125	(61)	64
Total interest expense	517	(392)	125	282	(590)	(308)
Net interest income	(Won) 608	(Won) (163)	(Won) 445	(Won) (17)	(Won) 40	(Won) 23

(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

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effect on December 31, 2004, which was (Won)1,035.1 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 27, 2005, the noon buying rate was (Won)1,013.5 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average [1]	Period-End
2000	(Won) 1,105.5	(Won) 1,267.0	(Won) 1,140.0	(Won) 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	1,035.1	1,195.1	1,139.3	1,035.1
2005 (through June 27)	997.0	1,058.0	1,014.8	1,013.5
January	1,024.0	1,058.0	1,038.0	1,026.9
February	1,000.9	1,044.0	1,023.1	1,000.9
March	997.5	1,023.9	1,007.8	1,015.4
April	997.0	1,019.0	1,010.1	997.0
May	997.0	1,009.0	1,001.8	1,005.0
June (through June 27)	1,003.0	1,016.0	1,009.8	1,013.5

Source: Federal Reserve Bank of New York.

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

Item 3B. ***Capitalization and Indebtedness***

Not Applicable

Item 3C. ***Reasons for the Offer and Use of Proceeds***

Not Applicable

Item 3D. ***Risk Factors***

Risks relating to our corporate credit portfolio

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

Our credit exposure (which includes loans and guarantees and acceptances) to small- and medium-sized enterprises increased from (Won)33,371 billion, or 32.3% of our total loans and other credits, as of December 31, 2002 to (Won)41,526 billion, or 34.2% of our total loans and other credits, as of December 31, 2004. As of December 31, 2004, under Korean GAAP loans and other credits to small- and medium-sized enterprises that were classified as substandard or below were (Won)1,084 billion, representing 2.6% of our total credits to those enterprises. On a Korean GAAP basis, we recorded charge-offs of (Won)191 billion in respect of our loans to small- and medium-sized enterprises in 2004, compared to charge-offs of (Won)267 billion in 2003. 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 average delinquency ratio for loans by Korean banks to small- and medium-sized enterprises (excluding those loans made by the Korean affiliate of Citibank, the Industrial Bank of Korea and regional banks in Korea) was 2.5% as of December 31, 2004. The delinquency ratio for loans to small- and medium-sized enterprise is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal payments are overdue by one day or more or interest payments are overdue by 14 days or more (unless prior interest payments on a loan were made late on more than three occasions, in which case the loan is considered delinquent if interest payments are overdue by one day or more) to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans 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 December 31, 2004 and may rise further in 2005. 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, 2004, nine were to companies that were members of the 30 largest *chaebols* in Korea. As of that date, the total amount of our exposures to the 30 largest *chaebols* was (Won)10,070 billion, or 8.30% 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 former and current 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)1.1 trillion and overstated its profits by (Won)1.5 trillion. These banks, including our subsidiaries, agreed to a rollover of approximately (Won)6.6 trillion of SK Networks debt until December 31, 2007 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-to-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 experienced significant liquidity and asset quality problems. See 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.

As a result of their financial difficulties, we have increased our allowance for loan losses for our loans to the troubled former and current member companies of these groups in recent years. With respect to some of these companies, we have already charged off or sold our previous outstanding exposures. The table below summarizes our exposures to selected member companies of these groups as of December 31, 2004:

	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 Corporation	(Won) 82	0.07%	88.09%		(Won) 37	45.29%
Hyundai Engineering and Construction	214	0.18	0.00			0.00
Hyundai Motors Group (2)	170	0.14	0.00	(Won) 1		0.02
Hyundai Heavy Industries	1	0.00	0.00			0.00
Hynix Semiconductor	138	0.11	38.13	4	25	18.16
Former Daewoo Group						
Daewoo International	274	0.23	0.00		1	0.52
GM Daewoo Auto & Technology	90	0.07	100.00		90	100.00
Daewoo Electronics	116	0.10	0.00	23	7	5.90
Ssangyong Motors	36	0.03	0.00	9	1	0.12
SK Group						
SK Networks	296	0.24	0.00	4	33	11.23
Ssangyong Group						
Ssangyong Corporation	62	0.05	43.42		16	25.67
Ssangyong Cement Industrial	50	0.04	12.04		1	2.40
Ssangyong Construction	3	0.00	0.00		1	2.21
Namkwang Construction	1	0.00	0.00			0.25
LG Group						

LG Card [3]	304	0.25	0.00	22	7.09

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(1) Comprises loans, debt and equity securities, guarantees and acceptances and other exposures.
(2) Comprises Hyundai Motors, Kia Motors, Hyundai Capital, Hyundai Card and INI Steel.
(3) 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)739 billion as of December 31, 2004, which represented 0.2% and 0.61% of our total exposures as of those dates. As of December 31, 2004, loans and other credits to Korean credit card companies that were classified as precautionary or below were (Won)349 billion, representing 0.29% of our total exposure. In recent years, the Korean credit card industry has experienced increasing delinquency rates with respect to credit card receivables. 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, 2004:

	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) 349	0.29%			(Won) 22	6.30%
Samsung Card	253	0.21			1	0.40
BC Card	49	0.04				
Lotte Credit Card						
Others	88	0.07				
Total	(Won) 739	0.61%			(Won) 23	3.11%

(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, commencing in late 2003, LG Card, one of Korea s largest credit card companies, experienced significant liquidity and asset quality problems. In 2003 and 2004, the principal creditor banks of LG Card (including our subsidiaries), led by the Korea Development Bank, agreed to a series of rescue measures pursuant to which the maturities of outstanding LG Card debt were extended, new funding was provided by the creditor banks to LG Card (in the form of loans and purchases of debt securities) and LG Card debt was exchanged by the creditor banks into equity of LG Card. In conjunction with these rescue measures, LG Group made additional capital contributions of approximately (Won)1,175 billion into LG Card and agreed to several capital write-downs which reduced its ownership interest in LG Card to 10.6%. In addition, the creditor banks of LG Card (including our subsidiaries) formed a normalization steering committee to jointly oversee LG Card s management and business operations.

In December 2004, the creditor banks (including our subsidiaries) and LG Group agreed to another (Won)1 trillion rescue plan to prevent LG Card from becoming delisted from the Stock Market Division of the Korea Exchange. In connection with the rescue plan, the creditor banks (including our subsidiaries) agreed to:

- make an additional capital contribution of (Won)272 billion for new shares constituting 3.5% of the outstanding share capital of LG Card, with our portion of such amount being (Won)31 billion;

exchange an additional (Won)228 billion of LG Card debt for shares constituting 3.0% of the outstanding share capital of LG Card, with our portion of such amount being approximately (Won)24 billion;

provide an additional up to (Won)1 trillion credit line to LG Card when necessary; and

reduce the interest rate on LG Card s existing debt by two percentage points.

In connection with the rescue plan, the LG Group agreed to exchange (Won)500 billion of LG Card debt into equity of LG Card. In January 2005, LG Card also issued (Won)1 trillion in new shares as part of the rescue plan to raise capital. In connection with this new issuance, the creditor banks (including our subsidiaries) and affiliates of LG Group subscribed to (Won)500 billion of new shares, with our portion of such amount being approximately (Won)55 billion. In addition, the creditor banks (including our subsidiaries) agreed to sell 5% of LG Card s outstanding shares during each quarter of 2005 to meet stock distribution requirements of the Stock Market Division of the Korea Exchange. LG Card also agreed to a 5.5:1 stock consolidation plan, which was implemented in March 2005.

As of December 31, 2004, our total exposure to LG Card was (Won)349 billion, including (Won)135 billion of loans, (Won)122 billion of debt securities and (Won)47 billion of equity securities. As of such date, all of our loans to LG Card were classified as precautionary and as impaired loans for U.S. GAAP purposes. As a result of the deteriorating financial condition of LG Card, we recorded provisions of (Won)18 billion and recognized securities impairment losses of (Won)2 billion in 2004 in respect of our exposures to LG Card. In addition, as of December 31, 2004, we had approximately (Won)56 billion of exposure to LG Card in our guaranteed trust accounts, with respect to which we may experience further losses.

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, 2004, our 20 largest exposures to corporate borrowers totaled (Won)15,089 billion, which represented 12.31% 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)6,977 billion, representing 5.75% of our total exposures. See Item 4A. History and Development of the Company History. 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)1,110 billion representing 0.91% of our total exposures. We have made efforts to reduce our outstanding credit exposure to large corporate borrowers, including through asset sales, credit line reductions and credit charge-offs. Any further deterioration 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.

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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, 2004, our credit exposures to companies that were in workout, corporate restructuring, composition or corporate reorganization, including companies in the former Daewoo Group, former Hyundai Group and the Ssangyong Group, SK Group and LG Group amounted to (Won)849 billion or 0.9% of our total credit exposures, of which (Won)325 billion or 38.3% was classified as substandard or below and all of which was classified as impaired. As of the same date, our allowances for loan losses on these credit exposures amounted to (Won)247 billion, or 29.1% of these exposures. These allowances may not be sufficient to cover all future losses arising from our credit exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Including such securities, our exposures as of December 31, 2004 to companies in workout, restructuring, corporate reorganization or composition amounted to (Won)1,470 billion, or 1.2% of our total exposures. In addition, in the case of 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% or more 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)15,173 billion as of December 31, 2001 to (Won)32,302 billion as of December 31, 2004. Our credit card portfolio grew from (Won)5,291 billion as of December 31, 2001 to (Won)6,418 billion as of December 31, 2002, but decreased to (Won)3,964 billion as of December 31, 2003 and to (Won)2,128 billion as of December 31, 2004, as a result of increased charge-offs and our efforts to reduce our credit card exposure. As of December 31, 2004, our consumer loans and credit card receivables represented 28.9% and 1.8% of our total lending, respectively.

The rapid growth in our consumer loan and credit card portfolios in prior years has led to increasing delinquencies and a deterioration in asset quality. Our consumer loans classified as substandard or below increased from (Won)137 billion, or 0.9% of our consumer loan portfolio, as of December 31, 2001 to (Won)498 billion, or 1.5% of our consumer loan portfolio, as of December 31, 2004. We charged off consumer loans amounting to (Won)140 billion in 2004, as compared to (Won)85 billion in 2003, and recorded provisions in respect of consumer loans of (Won)145 billion in 2004, as compared to (Won)222 billion in 2003. Within our consumer loan portfolio, the outstanding balance of general purpose household loans, which, unlike mortgage or home equity loans, are often unsecured and therefore tend to carry a higher credit risk, has increased from (Won)8,237 billion, or 54.3% of our total outstanding consumer loans, as of December 31, 2001 to (Won)14,175 billion, or 43.9% of our total outstanding consumer loans, as of December 31, 2004.

In our credit card segment, outstanding balances overdue by 30 days or more increased from (Won)485 billion, or 7.6% of our credit card receivables, as of December 31, 2002 to (Won)938 billion, or 23.7% of our credit card receivables, as of December 31, 2003, but decreased to (Won)136 billion, or 6.4% of our credit card receivables, as of December 31, 2004. 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, 2004, these restructured loans amounted to (Won)236 billion, or 11.1% of our credit card balances. Because these restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our credit card balances. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 13.2%

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of our credit card balances as of December 31, 2004. We charged off credit card balances amounting to approximately (Won)1.1 trillion in 2004, as compared to approximately (Won)1.3 trillion in 2003, and recorded provisions in respect of credit card balances of (Won)43 billion in 2004, as compared to (Won)1,682 billion in 2003. Delinquencies may increase in the future as a result of, among other things, adverse economic developments in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt, as reflected, for example, in the practice among some credit card holders of obtaining multiple credit cards and using cash advances from one card to make payments due on others.

Further deterioration of the asset quality of our consumer loan and credit card portfolios would require us to increase our loan loss provisions and charge-offs and will adversely affect our financial condition and results of operations. While our loan loss provisions in respect of our consumer loan and credit card portfolios, as a percentage of total average consumer loan and credit card balances, decreased from 3.2% in 2002 to 0.6% in 2004, 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 1.7% in 2002 to 3.5% in 2004.

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

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 borrowings and domestic bond issuances 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 continued to generate net losses under Korean GAAP in 2004. Our credit card operations may continue to divert financial resources from our other operations in the future, 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 recent years to stabilize the real estate market, would reduce the value of the collateral securing our mortgage and home equity loans. If collateral values decline in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any declines in the value of the real estate or other collateral securing our consumer loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional loan loss provisions.

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

Risks relating to our financial holding company structure and strategy

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

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

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

Our success under a financial holding company structure depends on our ability to take advantage of our large existing base of retail and corporate banking customers and to implement a strategy of developing and cross-selling diverse financial products and services to them. As part of this strategy, we have standardized our subsidiaries risk management operations (except with respect to credit risk management and operational risk management) and plan to develop a group-wide, integrated customer relationship management database to be shared by all of our subsidiaries. We are currently in the process of integrating 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 certain risks, including the possibility that:

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

- we may lack required capital resources;

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

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

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

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

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

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

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

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

- unexpected business disruptions;
- loss of customers; and
- labor unrest.

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

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

An important element of our overall strategy is increasing our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. Historically, our primary source of revenues has been net interest income from our banking operations. To date, except for credit card, trust management, bancassurance 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. 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, 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 acquisition of Koram Bank by an affiliate of Citibank in 2004, as well as the acquisition of Korea First Bank by Standard Chartered Bank in April 2005. We expect that consolidation in the financial industry will continue. Some of the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

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

Other risks relating to our business

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2006. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As a result of rising credit card delinquency levels in Korea, Woori Credit Card failed to meet certain financial targets as of June 30, September 30 and December 31, 2003. As a result of these failures, the KDIC imposed penalties on Woori Credit Card, including the termination of certain members of its senior management and the reduction of the compensation of certain others. We merged Woori Credit Card with Woori Bank in March 2004. Kwangju Bank and Kyongnam Bank also failed to meet their respective return on assets target as of December 31, 2003, although they met such target as of March 31, 2004. Due to its merger with Woori Credit Card, Woori Bank also failed to meet its return on assets target and operating profit per employee target as of June 30, 2004. We also failed to meet three of the financial targets as of June 30, 2004, which were return on total assets, expense to revenue ratio, and operating income per employee. The KDIC notified us that we could not improve fringe benefits for our employees (including salaries), and ordered us to devise and report to the KDIC a plan to meet those three financial targets. We negotiated with the KDIC to adjust some of the financial targets applicable to us and our subsidiaries under our memoranda of understanding and, as a result, each of us, Woori Bank, Kyongnam Bank and Kwangju Bank met our financial targets as of December 31, 2004.

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

We 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, 2004, 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)44 billion. As of that date, we recorded a liability of (Won)22 billion relating to those loans, representing our estimated obligation to make repurchases. 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, 2004, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)3,579 billion. As of that date, we had established allowances of (Won)58 billion in respect of possible losses on those assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets to the extent those payments or recovery shortfalls exceed our allowances.

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

From 2000 to 2004, interest rates in Korea declined to historically low levels as the government sought to stimulate economic growth through active rate-lowering measures. Interest rates have started to rebound in the first quarter of 2005. Approximately 85.5% 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, 2004, approximately 80.8% 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 June 2003, members of Chohung Bank s labor union went on strike to express their opposition to the proposed sale by the KDIC of its interest in that bank to Shinhan Financial Group. Furthermore, in July 2004, members of Koram Bank s labor union engaged in a strike to obtain concessions in connection with the acquisition of Koram Bank by an affiliate of Citibank. Although we did not experience any major labor disputes in connection with the merger of Woori Credit Card with Woori Bank, our employees at Woori Securities staged a one-month strike to protest the merger of Woori Securities into LGIS in March 2005. Actual or threatened labor disputes may in the future disrupt the reorganization and integration process and our business operations, which in turn may hurt our financial condition and results of operations.

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

As of December 31, 2004, 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)6,916 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 ratio or for other reasons, which we or they may not be able to do on favorable terms or at all.

Pursuant to the capital adequacy requirements of the Financial Supervisory Commission, we are required to maintain a minimum requisite capital ratio, which is the ratio of net total equity capital as a percentage of requisite capital, of 100% on a consolidated Korean GAAP basis. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy. 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

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Development of the Company History Relationship with the Korean Government. As of December 31, 2004, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Supervisory Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

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

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

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

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach model with respect to calculating capital requirements. Woori Bank has, subject to approval from the Financial Supervisory Service, voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements, while Kyongnam Bank and Kwangju Bank have chosen to use a standard approach. Since Woori Bank will be implementing an internal ratings-based approach for the first time in connection with its implementation of Basel II, its internal rating model may require a significant increase in its capital requirements, which will require it to either improve its asset quality or raise additional capital.

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.

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

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

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

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

Risks relating to government control

The KDIC, which is our controlling 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 78.9% 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 and policy

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

In November 2004, the Financial Supervisory Commission announced that it will implement new loan loss provisioning guidelines, which Korean banks will be required to follow from the second half of 2006 in preparing financial statements under Korean GAAP. These guidelines include a new requirement that banks take into account expected losses with respect to credits in establishing their allowance for loan losses, instead of establishing such allowances based on the classification of credits under the current asset classification criteria. As a result, we will be required to establish and maintain allowance for loan losses under Korean GAAP based on an evaluation of expected losses on individual credits or credit portfolios.

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Under the new guidelines, all Korean banks are required to establish systems to calculate their historical losses and expected losses during 2005. The Financial Supervisory Commission also announced that Korean banks may voluntarily comply with the new loan loss provisioning guidelines commencing in 2005. Specifically, in the second half of 2005, banks that have implemented a credible internal system for evaluating historical losses may establish their allowance for loan losses based on such historical losses, so long as the total allowance for loan losses established exceeds the levels required under the current asset classification-based provisioning guidelines. Similarly, in the first half of 2006, banks that have implemented a credible system for evaluating expected losses may establish their allowance for loan losses based on such expected losses, so long as the total allowance established exceeds currently required levels. We currently intend to voluntarily comply with the new guidelines in establishing our allowance for loan losses commencing in the second half of 2005, which may increase our provisions for loan losses under Korean GAAP in 2005 compared to the levels that would be required under the currently applicable provisioning guidelines. Any such increase in our provisions for loan losses will have an adverse effect, and could have a material adverse effect, on our reported results of operations and financial condition under Korean GAAP and our reported capital adequacy ratio, which in turn may adversely affect the market price of our common stock and ADSs. Full compliance with the new guidelines commencing in 2006 may further increase our provisions for loan losses under Korean GAAP compared to currently mandated levels.

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 to mortgage and home equity lending by Korean banks.

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

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

The Korean government has also expressed a continuing commitment to stabilize the real estate market and willingness to implement additional measures, as necessary. For example, in 2004 and the first quarter of 2005, the Korean government has:

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

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

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

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

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

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

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

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

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

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

The Korean government may adopt further regulatory changes in the future that affect the credit card industry. Depending on their nature, such changes may adversely affect our credit card operations, by restricting

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its growth or scope, subjecting it to stricter requirements and potential sanctions or greater competition, constraining its profitability or otherwise. For more details regarding these enacted and proposed changes, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Credit Card Business.

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

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

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

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

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

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

- capital increases or reductions;
- stock cancellations or consolidations;
- transfers of business;

sales of assets;

closures of branch offices;

mergers with other financial institutions; and

suspensions of a part or all of our business operations.

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

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Risks relating to Korea

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

We are incorporated in Korea, and substantially all of our operations are located in Korea. As a result, we are subject to political, economic, legal and regulatory risks specific to Korea. 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 2002, 2003 and 2004 have shown mixed signs of recovery and uncertainty, and future recovery or growth of the economy is subject to many factors beyond our control. Recent developments in the Middle East, including the war in Iraq and its aftermath, higher oil prices 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;
- failure of restructuring of large troubled companies, including LG Card and other troubled 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 continued weakness of the U.S. dollar or a depreciation of the Chinese renminbi 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 market 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. A third round of talks were held in June 2004 with agreement to hold further talks in September, which were postponed and have not resumed yet. In February 2005, North Korea declared that it had developed and was in possession of nuclear weapons. It also announced its indefinite withdrawal from the six-party talks. In addition, in May 2005, North Korea test launched a short-range missile, which landed in the Sea of Japan. Any further increase in tensions, resulting for example from a breakdown 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 market price of our common stock and ADSs.

Labor unrest in Korea may adversely affect our operations.

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

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

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

Risks relating to our common stock and ADSs

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

The KDIC currently owns 628,458,609 shares, or 78.9%, 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. For example, in September 2004, the KDIC sold approximately 45 million of our shares of common stock in a private offering for approximately (Won)324 billion, which constituted 5.7% of our outstanding common stock. Under the Financial Holding Company Act, the KDIC was originally required to dispose of all of its holdings of our common stock by the end of March 2005 but the Korean National Assembly passed a bill to extend the deadline for two years until 2007 and an additiona1 one year extension is possible with the approval of the Public Fund Oversight Committee of the Korean government.

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

Ownership of our common stock is restricted under Korean law.

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

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

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

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

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

You will not have preemptive rights in some circumstances.

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

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

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

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

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

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

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

Our common stock is listed on the Stock Market Division of the Korea Exchange, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of

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our common stock on the Stock Market Division of the Korea Exchange. The Stock Market Division of the Korea Exchange has experienced substantial fluctuations in the prices and volumes of sales of listed securities and has prescribed a fixed range in which share prices are permitted to move on a daily basis. In the past decade, the Korea Composite Stock Price Index, known as the KOSPI, reached a peak of 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 27, 2005, the KOSPI closed at 991.11. Like other securities markets, including those in developed countries, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

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

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

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

Other Risks

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

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

Item 4. INFORMATION ON THE COMPANY

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

Overview

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

four commercial banks (Hanvit Bank (since renamed Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (since renamed Woori Credit Card and merged with Woori Bank)), one merchant bank (Hanaro Merchant Bank (since renamed Woori Investment Bank and merged with Woori Bank)), and

a number of other smaller financial institutions.

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

History

Establishment of Woori Finance Holdings

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

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

Commercial Banking Operations. The Korean government, through the Financial Supervisory Commission, decided in December 2000 to write down the capital of each of Hanvit Bank (now Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (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

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

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

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

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

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

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

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

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

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

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

Relationship with the Korean Government

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

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

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

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,

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cost reduction initiatives, future management and business strategies and other restructuring plans. Each plan also set forth six financial targets for each quarter of 2001 and 2002 that the applicable subsidiary was required to meet.

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

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

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

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

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

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

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

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

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

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

The specified financial targets for 2003 and 2004 that were to be met by Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Credit Card (which was subsequently merged with Woori Bank in 2004) were identical to those imposed by the KDIC on those subsidiaries. The specified financial targets for 2005 and 2006 that are to be met by Woori Bank, Kyongnam Bank and Kwangju Bank are identical to those imposed by the KDIC on those subsidiaries

Recent Developments with the KDIC. 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 financial targets. In April 2005, we and Woori Bank, Kyongnam Bank and Kwangju Bank each entered into a new two-year business normalization plan with the KDIC that included new restructuring measures and financial targets. The other terms of the previously agreed memoranda of understanding remain unchanged.

Our two-year business normalization plan sets forth the basis on which we should manage the normalization and integration of our subsidiaries operations as well as return the public funds that were injected into those subsidiaries. The business normalization plan sets forth six financial targets for each quarter of 2005 and 2006 that we are required to meet on a Korean GAAP basis. Our current Korean GAAP targets for each six-month period in 2005 and 2006 are set forth in the following table:

	Six-month period ended			
	2005		2006	
	June	December	June	December
Capital ratio [1]	120%	120%	120%	120%
Return on total assets [2]	0.6	0.7	0.6	0.7
Expense-to-revenue ratio [3]	51.6	50.1	51.3	49.4
Operating income per employee ((Won) billion) [4]	(Won) 2.9	(Won) 3.0	(Won) 3.0	(Won) 3.2
Non-performing loan ratio [5]	2.6%	2.6%	2.6%	2.5%
Holding company expense ratio [6]	0.8	0.7	0.8	0.7

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

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

Reorganization and Integration Plan

Following our establishment and our acquisition of our subsidiaries, we developed a reorganization and integration plan designed to reorganize the corporate structure of some of our subsidiaries and integrate our

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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.
- In June 2004, we acquired the 39.7% interest in Woori Securities that we did not own, and delisted it from the Stock Market Division of the Korea Exchange in July 2004.
- In October and December 2004, we acquired in the aggregate a 27.3% controlling voting interest in LGIS. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee.
- In May 2005, we acquired a 90.0% interest in LG Investment Trust Management, or LGITM, from Woori Investment & Securities and merged Woori Investment Trust Management into LGITM. We renamed the surviving entity Woori Asset Management, which remains a consolidated subsidiary.

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 addition, we have implemented a group-wide, standardized risk management system (except with respect to credit risk management and operational risk management). We expect to complete this standardization process after we complete integration of our accounting and management information systems, which we expect will occur after implementation of the Basel II requirements in 2007.

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

In 2002, we standardized the logo of certain of our subsidiaries, including Woori Bank, Woori Securities and Woori Investment Trust Management, and are in the process of doing the same with

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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.

We plan to develop a group-wide, integrated customer relationship management database to be shared by all of our subsidiaries, which we expect to complete after implementation of the Basel II requirements in 2007.

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, 2004. 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, 2004, we had consolidated total assets of (Won)130.9 trillion, consolidated total deposits of (Won)90.0 trillion and consolidated stockholders equity of (Won)6.5 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 four 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 930 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our approximately 17 million retail customers; modernizing and strengthening our credit risk review and management capabilities; working to integrate and cross-sell our products and services; and striving to create a customer- and service-oriented culture that measures and rewards performance.

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

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

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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 *http://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 enterprise customers, which numbered approximately 160,000 as of December 31, 2004.

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 half 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 1,000 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.

Strong capital base. As of December 31, 2004, our consolidated stockholders equity totaled (Won)6.5 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 11.9%, 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 has enhanced coordination among and corporate governance at our holding company and our subsidiaries. We also believe that the extensive experience of many members of our new management team in the non-banking financial sector will help us to continue to strengthen our non-banking operations.

Strategy

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

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. 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 and other initiatives, our ratio of non-performing loans to total loans decreased from 9.8% at December 31, 2001 to 2.3% as of December 31, 2004.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized group-wide risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies across all subsidiaries and implemented an advanced credit evaluation system called CREPIA at Woori Bank, 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 12 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.

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We plan to develop a group-wide, integrated customer relationship management database to be shared by all of our subsidiaries, which we expect to complete after implementation of the Basel II requirements in 2007. We believe our integrated and targeted marketing approach will not only increase our wallet share of our existing customers and allow us to attract new customers, but more importantly, enhance our customer profitability.

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

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

Enhance operational efficiencies to further reduce costs. We intend to improve our operational efficiency and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost distribution channels. We have standardized the risk management operations (except with respect to credit risk management and operational risk management) of Kyongnam Bank and Kwangju Bank with those of Woori Bank. Credit evaluation and approval processes, foreign exchange operations and back-office functions at Woori Bank were removed from branches and centralized at the head office or regional centers in 2003 in order to reduce cost and free up branch staff for marketing. 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 2007.

We believe that the integration of our accounting and management information systems, which we expect to complete after implementation of the Basel II requirements in 2007, will allow us to further eliminate redundant functions and equipment and reducing our long-term expense. In addition, we are continuing our efforts to reduce procurement costs by coordinating and combining procurement activities among our subsidiaries. We believe the completion of the above integration, centralization and procurement projects together with our effort to encourage migration of our mass market customers to low-cost alternative channels will reduce our costs and enhance our operating efficiencies meaningfully.

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

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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,					
	2002		2003		2004	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentage)					
Loans:						
Small- and medium-sized enterprise	(Won) 31,560	39.4%	(Won) 38,831	43.9%	(Won) 40,198	44.4%
Large corporate	13,073	16.3	11,982	13.6	11,600	12.8
Others [(1)]	3,289	4.1	3,148	3.6	3,942	4.4
Total	(Won) 47,922	59.8%	(Won) 53,960	61.1%	(Won) 55,740	61.6%
Deposits:						
Small- and medium-sized enterprise	(Won) 8,165	10.4%	(Won) 11,186	12.5%	(Won) 10,948	12.1%
Large corporate	10,287	13.1	16,788	18.9	18,408	20.4
Total	(Won) 18,452	23.5%	(Won) 27,974	31.4%	(Won) 29,357	32.6%
Number of borrowers:						
Small- and medium-sized enterprise	154,601		157,902		160,391	
Large corporate	864		555		784	

(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

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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 52.3% of our total corporate loans as of December 31, 2001 to 72.1% as of December 31, 2004. As of December 31, 2004, 31.8% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 16.1% were extended to borrowers in the retail and wholesale industry and 8.8% 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, 2004, Woori Bank had stationed one or more relationship professionals at 484 branches, of which 341 were located in the Seoul metropolitan area. Of these 484 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, 2004, Woori Bank had a total of 570 small- and medium-sized enterprise relationship professionals stationed at its branches.

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

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 average delinquency ratio for loans by Korean banks to small- and medium-sized enterprises (excluding those loans made by the Korean affiliate of Citibank, the Industrial Bank of Korea and regional banks in Korea) was 2.5% as of December 31, 2004. 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 2.7% as of December 31, 2004 and may rise further in 2005. On a Korean GAAP basis, we charged off (Won)191 billion of our loans to small- and medium-sized enterprises in 2004. 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 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, 2004, working capital loans and facilities loans accounted for 81.6% and 11.7%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2004, we had approximately 160,000 small- and medium-sized enterprise borrowers.

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As of December 31, 2004, secured loans and loans guaranteed by a third party accounted for 64.7% and 25.1%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2004, approximately 69.2% of the secured loans were secured by real estate and 9.5% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of ten years.

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

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

Pricing. We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. At Woori Bank, lending rates are generally determined using our automated CREPIA system, 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 to occur after implementation of the Basel II requirements in 2007. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2004, substantially all of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

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

In terms of our outstanding loan balance, as of December 31, 2004, 64.1% of our large corporate loans were extended to borrowers in the manufacturing industry, 10.3% were extended to borrowers in the retail and wholesale industry and 7.8% were extended to borrowers in the hotel and transportation industry.

We service our large corporate customers primarily through Woori Bank s network of dedicated corporate marketing centers and relationship managers. Woori Bank operates 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, 2004, Woori Bank had a total of 110 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, 2004, working capital loans and facilities loans accounted for 35.8% and 7.6%, 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, 2004, secured loans and loans guaranteed by a third party accounted for 19.6% and 49.5%, 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, 2004, approximately 83.1% of the secured loans were secured by real estate and approximately 10.9% were secured by deposits. Working capital loans generally have a maturity of one year but may be extended on an annual basis for an aggregate term of three to five years. Facilities loans have a maximum maturity of ten years.

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

Pricing. We determine the pricing of our loans to corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Pricing. As of December 31, 2004, 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 CREPIA system. Instead, they establish lending rates using a market average floating rate, which is the base rate, with spreads based principally on factors that include non-payment ratios, cost of funding, incidental costs and the borrower s credit rating and profitability.

Consumer Banking

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

Woori Bank classifies its consumer banking customers based on their individual net worth and contribution to our consumer banking operations, into four groups: high net worth; mass affluent; middle class; and mass market. We differentiate our products, services and service delivery channels with respect to these segments, and expect to be able to make use of a group-wide, integrated customer relationship management database and group

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synergy marketing task force, which we expect to complete after implementation of the Basel II requirements in 2007, to further target our marketing and cross-selling efforts based on this segmentation. With respect to the high net worth and mass affluent segments, we have established private banking operations to better service customers in these segments. See Private Banking Operations. With respect to the middle class segment, we intend to use our branch-level sales staff to maximize the overall volume of products and services we provide. With respect to the mass market segment, we have focused on increasing our operating efficiency by encouraging customers to migrate to low-cost alternative service delivery channels, such as the Internet, call centers, mobile banking and ATMs. Kyongnam Bank and Kwangju Bank have segmented their customers into similar groups.

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

Lending Activities

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

	As of December 31,					
	2002		2003		2004	
	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
	(in billions of Won, except percentage)					
General purpose household loans [1]	(Won) 11,733	14.6%	(Won) 12,765	14.4%	(Won) 14,175	15.7%
Mortgage and home equity loans	14,033	17.5	17,592	19.9	18,127	20.0
Total	(Won) 25,766	32.1%	(Won) 30,357	34.4%	(Won) 32,302	35.7%

(1) Includes 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.

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

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

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by homes, other real estate, deposits or securities. As of December 31, 2004, approximately (Won)10,866 billion, or 76.7% 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, 2004, this amount was approximately (Won)4 billion.

Pricing. The interest rates on our consumer loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived internally, which reflects our internal cost of funding, further adjusted to account for the borrower s credit score and our opportunity cost) or a fixed rate that reflects those same costs and expenses, but taking into account interest rate risks. Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our automated CREPIA system. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2004, approximately 72.8% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is 30 years for each of Woori Bank and Kyongnam Bank and 33 years for Kwangju Bank. Most of our mortgage and home equity loans have an initial maturity of three years or less. With respect to these loans, Woori Bank determines the eligibility of borrowers based on the borrower s personal information, transaction history and credit history using its CREPIA system. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk

Management Credit Evaluation and Approval.

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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, 2004, approximately 80.7% of our mortgage and home equity loans were secured by residential or other property, 2.4% of our mortgage and home equity loans were guaranteed by the government housing-related funds and 16.9% 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, 2004, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)3,055 billion. For the year ended December 31, 2004, the average initial loan-to-value ratio of our mortgage and home equity loans was approximately 62.5%, compared to 63.6% for the year ended December 31, 2003.

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, 2004, approximately 98.4% 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)30 million with us. As of December 31, 2004, we had approximately 53,334 customers who qualified for private banking services, representing about 0.3% of our total retail customer base. Of our total retail customer deposits of (Won)45,375 billion as of December 31, 2004, high net worth and mass affluent customers accounted for approximately 30%.

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 ten private client service centers in the Seoul metropolitan area, which are staffed by 14 private bankers. Woori Bank also has 370 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 that is staffed by two private bankers. Both banks also offer private banking services through a select number of branches. As of December 31, 2004, 25 private bankers were dispersed over 24 Kyongnam Bank branches and 96 private bankers were dispersed over 54 Kwangju Bank branches that provided private banking services.

In May 2005, we opened a financial products department store in Seoul, through which we market credit cards, foreign currencies, bonds, stocks and insurance policies, among other products, to high net worth customers. It also operates as a regular bank, with two private banking offices and a consulting center and 26 specialists dedicated to private banking services. We also assist in selling products from other financial institutions, as our aim is to retain high net worth customers by providing a variety of asset management products and services, rather than merely selling our own financial products.

Deposit-Taking Activities

As of December 31, 2004, 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)44,942 billion, (Won)48,631 billion and (Won)45,375 billion as of December 31, 2002, 2003 and 2004, respectively, which constituted 57.2%, 54.6% and 50.4%, respectively, of the balance of our total deposits.

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

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

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

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

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

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

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2004:

Time Deposits	Demand Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
44.2%	27.2%	16.1%	5.8%	6.7%

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, 2004, our banking subsidiaries paid an aggregate of (Won)130 billion.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 934 branches in Korea as of December 31, 2004, 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, 2004:

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

Area								
Seoul	356	51%	3	3%	3	3%	362	39%
Five largest cities (other than Seoul)	117	17	4	3	77	66	198	21
Other	225	32	113	94	36	31	374	40
Total	698	100%	120	100%	116	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 History Reorganization and Integration Plan.

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. The following table presents the number of ATMs and cash dispensers we had as of December 31, 2004:

	ATMs	Cash Dispensers
Woori Bank	3,267	3,057
Kyongnam Bank	350	409
Kwangju Bank	404	265
Total	4,021	7,752

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,		
	2002	2003	2004
ATMs [(1)]:			
Number of transactions (millions)	357	335	326
Fee income (billions of Won)	(Won) 25	(Won) 35	(Won) 36
Telephone banking:			
Number of users	2,892,100	3,322,751	4,005,658
Number of transactions (millions)	123	121	164
Fee income (billions of Won)	(Won) 15	(Won) 14	(Won) 17
Internet banking:			
Number of users	2,534,503	3,246,396	3,892,755
Number of transactions (millions)	351	498	651
Fee income (billions of Won)	(Won) 38	(Won) 52	(Won) 74

Kyongnam Bank

	For the year ended December 31,		
	2002	2003	2004
ATMs [1]:			
Number of transactions (millions)	53	55	52
Fee income (billions of Won)	(Won) 1	(Won) 2	(Won) 4
Telephone banking:			
Number of users	396,608	461,163	594,280
Number of transactions (millions)	18	20	20
Fee income (billions of Won)	(Won) 2	(Won) 2	(Won) 2
Internet banking:			
Number of users	171,208	207,591	339,346
Number of transactions (millions)	24	33	43
Fee income (billions of Won)	(Won) 0.3	(Won) 1	(Won) 1

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Kwangju Bank

	For the year ended December 31,		
	2002	2003	2004
ATMs [1]:			
Number of transactions (millions)	53	52	52
Fee income (billions of Won)	(Won) 6	(Won) 5	(Won) 6
Telephone banking:			
Number of users	207,000	366,585	517,370
Number of transactions (millions)	18	24	18
Fee income (billions of Won)	(Won) 2	(Won) 1	(Won) 1
Internet banking:			
Number of users	43,000	334,295	458,125
Number of transactions (millions)	12	23	33
Fee income (billions of Won)	(Won) 0.3	(Won) 1	(Won) 1

(1) Includes cash dispensers.

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

Our automated telephone banking systems offer a variety of services, including inter-account fund transfers, balance a