WOORI FINANCE HOLDINGS CO LTD
Form 20-F/A
May 25, 2012
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As filed with the Securities and Exchange Commission on May 25, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F/A

Amendment No. 1

(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, 2011

OR

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

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report

For the transition period from to

Commission file number 001-31811

Woori Finance Holdings Co., Ltd.

(Exact name of Registrant as specified in its charter)

Woori Finance Holdings Co., Ltd.

(Translation of Registrant s name into English)

The Republic of Korea

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Woo Seok Seong

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

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

Facsimile No.: +82-2-2125-2293

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

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

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

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

None

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

None

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

806,013,341 shares of Common Stock, par value (Won)**5,000 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934. ¨ Yes x No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

x Large accelerated filer	¨ Accelerated Filer	¨ Non-accelerated filer

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

¨ U.S. GAAP	x International Financial Reporting Standards as issued by the International Accounting Standards Board	¨ Other

If other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 ¨ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes x No

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

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

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

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EXPLANATORY NOTE

This Amendment No. 1 to Form 20-F (the Form 20-F/A) amends our annual report on Form 20-F for the year ended December 31, 2011 (the Annual Report), which was originally filed with the U.S. Securities and Exchange Commission on April 30, 2012. The purpose of this Form 20-F/A is to:

amend the tabular information and related numbers and percentages presented under Item 4B. Business Overview Assets and Liabilities Loan Portfolio 20 Largest Exposures by Borrower and Exposure to Chaebols and Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Credit Exposures to Companies in Workout, Restructuring or Rehabilitation and Top 20 Non-Performing Loans ; and

amend the following risk factors to make conforming changes to certain numbers and percentages presented therein in connection with the above-described amendments: Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, financial difficulties of chaebols may have an adverse impact on us, 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 and 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 bad debt expenses required or the adoption of restructuring plans with which we do not agree.

This Form 20-F/A does not reflect events occurring after the filing of the Annual Report and does not modify or update the disclosure therein in any way except as described above. No other changes have been made to the Annual Report. The filing of this Form 20-F/A should not be understood to mean that any statements contained in the Annual Report, as amended by this Form 20-F/A, are true or complete as of any date subsequent to the original filing date of the Annual Report.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The financial statements included in this annual report are prepared in accordance with International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB. As such, we make an explicit and unreserved statement of compliance with IFRS as issued by the IASB with respect to our consolidated financial statements as of and for the years ended December 31, 2010 and 2011 included in this annual report. Unless indicated otherwise, the financial information in this annual report (i) as of and for the years ended December 31, 2010 and 2011 has been prepared in accordance with IFRS as issued by the IASB, and (ii) as of and for the years ended December 31, 2007, 2008 and 2009 has been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP, which is not comparable to information prepared in accordance with IFRS. For an explanation of how the transition to IFRS has affected our consolidated financial statements, see Notes 47 and 48 of the notes to our consolidated financial statements.

In accordance with rule amendments adopted by the U.S. Securities and Exchange Commission which became effective on March 4, 2008, we are not required to provide a reconciliation to U.S. GAAP. Furthermore, pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time application of IFRS, no audited financial statements and financial information prepared under IFRS as of or for the year ended December 31, 2009 have been included in this annual report.

Unless expressly stated otherwise, all financial data included in this annual report are presented on a consolidated basis.

In April 2008, we acquired a 51.0% interest in LIG Life Insurance, and entered into a joint venture agreement with Aviva International Holdings Limited in connection with this acquisition. LIG Life Insurance was subsequently renamed Woori Aviva Life Insurance and became an equity method investee under U.S. GAAP as of April 2008. Under IFRS, Woori Aviva Life Insurance is accounted for as part of our investments in jointly controlled entities and associates.

In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly-owned consolidated subsidiary, Woori FG Savings Bank Co., Ltd., which was established in connection with such transaction.

In this annual report:

- references to we, us or Woori Finance Holdings are to Woori Finance Holdings Co., Ltd. and, unless the context otherwise requires, its subsidiaries;
- references to Korea are to the Republic of Korea;
- references to the government are to the government of the Republic of Korea;
- references to Won or (Won) are to the currency of Korea; and
- references to U.S. dollars, $ or US$ are to United States dollars.

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

For your convenience, this annual report contains translations of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 30, 2011, which was (Won)1,158.5 = US$1.00.

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FORWARD-LOOKING STATEMENTS

The U.S. Securities and Exchange Commission encourages companies to disclose forward-looking information so that investors can better understand a company s future prospects and make informed investment decisions. This annual report contains forward-looking statements.

Words and phrases such as aim, anticipate, assume, believe, contemplate, continue, estimate, expect, future, goal, intend, positioned, predict, project, risk, seek to, shall, should, will likely result, will pursue, plan and words and terms of similar sub connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 4B. Business Overview and Item 5. Operating and Financial Review and Prospects regarding our financial condition and other future events or prospects are forward-looking statements. All forward-looking statements are management s present expectations of future events and are subject to a number of factors and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements.

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

- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of provisions for credit and other losses;
- technological changes;
- interest rates;
- investment income;
- availability of funding and liquidity;
- our exposure to market risks; and
- adverse market and regulatory conditions.

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

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

general economic and political conditions in Korea or other countries that have an impact on our business activities or investments;

the monetary and interest rate policies of Korea;

inflation or deflation;

unanticipated volatility in interest rates;

foreign exchange rates;

prices and yields of equity and debt securities;

- the performance of the financial markets in Korea and globally;

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

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

- regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2010 and 2011 have been derived from our audited consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. Our consolidated financial statements as of and for the years ended December 31, 2010 and 2011 have been audited by Deloitte Anjin LLC, an independent registered public accounting firm.

Pursuant to the transitional relief granted by the U.S. Securities and Exchange Commission in respect of the first-time application of IFRS, financial and operating data as of and for the years ended December 31, 2007, 2008 and 2009 derived from our consolidated financial statements prepared in accordance with U.S. GAAP have not been included below.

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 Statement of Comprehensive Income Data

	Year ended December 31,		
	2010	2011	2011[1]
	(in billions of Won except per share data)		(in millions of US$ except per share data)
Interest income	(Won) 14,057	(Won) 15,045	US$ 12,986
Interest expense	7,634	7,783	6,718
Net interest income	6,423	7,262	6,268
Fees and commissions income	1,688	1,774	1,532
Fees and commissions expense	572	579	500
Net fees and commissions income	1,116	1,195	1,032
Dividends	201	203	175
Gain on financial assets at fair value through profit or loss	39	119	103
Gain on available-for-sale financial assets	1,073	1,073	926
Gain on held-to-maturity financial assets	0	0	0
Impairment loss on credit loss	2,873	2,269	1,958
Other net operating expenses[2]	(3,910)	(4,423)	(3,818)
Operating income	2,069	3,160	2,728
Share of profits of jointly controlled entities and associates	30	17	14
Net income before income tax expense	2,099	3,177	2,742
Income tax expense	498	744	642
Net income	(Won) 1,601	(Won) 2,433	US$ 2,100
Net income attributable to owners	1,289	2,137	1,844
Net income attributable to the non-controlling interests	312	296	256
Other comprehensive income (loss), net of tax	(236)	(385)	(332)
Loss on available-for-sale financial assets	(205)	(375)	(323)
Share of other comprehensive loss of jointly controlled entities and associates	(21)	(38)	(32)
Gain (loss) on overseas business translation	(19)	25	21
Gain on valuation of cashflow hedge	9	3	2
Total comprehensive income	(Won) 1,365	(Won) 2,048	US$ 1,768
Comprehensive income attributable to owners	1,052	1,730	1,493
Comprehensive income attributable to non-controlling interests	313	318	275
Basic and diluted earnings per share	(Won) 1,599	(Won) 2,649	US$ 2.29
Per common share data:			
Net income (loss) per share basic	(Won) 1,599	(Won) 2,649	US$ 2.29
Weighted average common shares outstanding basic (in thousands)	806,013	806,013	806,013
Net income (loss) per share diluted	(Won) 1,599	(Won) 2,649	US$ 2.29
Weighted average common shares outstanding diluted (in thousands)	806,013	806,013	806,013
Cash dividends paid per share	(Won) 250	(Won) 250	US$ 0.22

(1)

Won amounts are expressed in U.S. dollars at the rate of (Won)1,158.5 to US$1.00, the noon buying rate in effect on December 30, 2011 as quoted by the Federal Reserve Bank of New York in the United States.

(2) For a description of other net operating expenses, see Note 39 of the notes to our consolidated financial statements.

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Consolidated Statement of Financial Position Data

	As of December 31, 2010	2011	2011[1]
	(in billions of Won)		(in millions of US$)
Assets			
Cash and cash equivalents	(Won) 4,871	(Won) 6,417	US$ 5,539
Financial assets at fair value through profit or loss	22,184	25,600	22,098
Available-for-sale financial assets	21,998	19,672	16,981
Held-to-maturity financial assets	19,886	20,036	17,295
Loans and receivables	216,792	235,160	202,986
Investments in jointly controlled entities and associates	745	928	801
Investment properties	643	499	431
Premises and equipment	3,097	3,135	2,706
Intangible assets and goodwill	295	448	387
Current tax assets	9	57	49
Deferred tax assets	59	80	69
Derivative assets	131	327	282
Assets held for sale	88	56	48
Other assets[2]	379	377	325
Total assets	(Won) 291,177	(Won) 312,792	US$ 269,997
Liabilities			
Financial liabilities at fair value through profit or loss	(Won) 8,838	(Won) 9,622	8,305
Deposits due to customers	185,428	195,930	169,124
Borrowings	34,266	34,667	29,924
Debentures	29,111	29,266	25,262
Provisions	761	892	770
Retirement benefit obligation	70	120	103
Current tax liabilities	174	274	237
Deferred tax liabilities	213	260	225
Derivative liabilities	5	33	29
Other financial liabilities[3]	11,648	19,084	16,473
Other liabilities[4]	399	570	492
Total liabilities	(Won) 270,913	(Won) 290,718	US$ 250,944
Equity			
Owners Equity	(Won) 15,701	(Won) 17,525	15,126
Capital stock	4,030	4,030	3,479
Hybrid securities		309	267
Capital surplus	180	176	151
Other equity[5]	1,002	587	506
Retained earnings	10,489	12,423	10,723
Non-controlling interests	4,563	4,549	3,927
Total equity	(Won) 20,264	(Won) 22,074	US$ 19,053
Total liabilities and equity	(Won) 291,177	(Won) 312,792	US$ 269,997

(1) Won amounts are expressed in U.S. dollars at the rate of (Won)1,158.5 to US$1.00, the noon buying rate in effect on December 30, 2011 as quoted by the Federal Reserve Bank of New York in the United States.

(2) For a description of other assets, see Note 18 of the notes to our consolidated financial statements.

(3) For a description of other financial liabilities, see Note 24 of the notes to our consolidated financial statements.

(4) For a description of other liabilities, see Note 24 of the notes to our consolidated financial statements.

(5) For a description of other equity, see Note 29 of the notes to our consolidated financial statements.

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Profitability Ratios and Other Data

	Year ended December 31, 2010	2011
	(in billions of Won except percentages)	
Return on average assets[1]	0.44%	0.70%
Return on average equity[2]	6.45	9.95
Net interest spread[3]	2.12	2.31
Net interest margin[4]	2.29	2.50
Cost-to-income ratio[5]	47.56	47.95
Average equity as a percentage of average total assets	6.79	7.04
Total revenue[6]	(Won) 17,058	(Won) 18,214
Operating expense[7]	12,116	12,785
Operating margin[8]	4,942	5,429
Operating margin as a percentage of total revenue	28.97%	29.81%

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

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

(3) Represents the difference between the yield on average interest-earning assets and cost of average interest-bearing liabilities.

(4) Represents the ratio of net interest income to average interest-earning assets.

(5) Represents the ratio of non-interest expense (excluding impairment loss on credit loss) to the sum of net interest income and non-interest income.

(6) Represents the sum of interest income, dividend income, fees and commissions income, gain on financial assets at fair value through profit or loss, gain on available-for-sale financial assets and gain on held-to-maturity financial assets.

The following table shows how total revenue is calculated:

	Year ended December 31, 2010	2011
	(in billions of Won)	
Interest income	(Won) 14,057	(Won) 15,045
Fees and commissions income	1,688	1,774
Dividends	201	203
Gain on financial assets at fair value through profit or loss	39	119
Gain on available-for-sale financial assets	1,073	1,073
Gain on held-to-maturity financial assets		
Total revenue	(Won) 17,058	(Won) 18,214

(7) Represents interest expense, fees and commissions expense and other net operating expense, excluding impairment loss on credit loss of (Won)2,873 billion and (Won)2,269 billion for 2010 and 2011, respectively.

The following table shows how operating expense is calculated:

	2010	2011
	(in billions of Won)	
Interest expense	(Won) 7,634	(Won) 7,783
Fees and commissions expense	572	579

Other net operating expenses	3,910	4,423
Operating expense	(Won) 12,116	(Won) 12,785

(8) Represents total revenue less operating expense.

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Asset Quality Data

	As of December 31,	
	2010	2011
	(in billions of Won)	
Total loans[1]	(Won) 201,235	(Won) 212,492
Total non-performing loans[2]	6,550	3,780
Other impaired loans not included in non-performing loans	475	238
Total non-performing loans and other impaired loans	7,025	4,018
Total provisions for credit losses	4,718	3,759
Non-performing loans as a percentage of total loans	3.25%	1.78%
Non-performing loans as a percentage of total assets	2.25	1.21
Total non-performing loans and other impaired loans as a percentage of total loans	3.49	1.89
Provisions for credit losses as a percentage of total loans	2.34	1.77

(1) Not including due from banks and other receivables, and prior to deducting provisions for credit losses (of (Won)4,718 billion and (Won)3,759 billion as of December 31, 2010 and 2011, respectively) and present value discount (of (Won)16 billion and (Won)31 billion as of December 31, 2010 and 2011, respectively) or reflecting deferred origination costs (of (Won)74 billion and (Won)178 billion as of December 31, 2010 and 2011, respectively)

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

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Segment Information

The following table sets forth financial data as of or for the year ended December 31, 2011 for our business segments:

	Woori Bank	Kyongnam Bank	Kwangju Bank	Woori Investment & Securities	Other	Inter-segment transactions[1]	Total
				(in billions of Won)			
Interest income	(Won) 11,659	(Won) 1,295	(Won) 950	(Won) 662	(Won) 511	(Won) (32)	(Won) 15,045
Interest expense	5,934	612	450	330	507	(50)	7,783
Net interest income	5,725	683	500	332	4	18	7,262
Non-interest income	16,611	421	166	3,218	1,332	(957)	20,791
Non-interest expense	15,137	422	158	2,760	293	(136)	18,634
Net non-interest income (loss)	1,474	(1)	8	458	1,039	(821)	2,157
Administrative expenses	2,553	274	224	570	450	(288)	3,783
Impairment loss on credit loss	1,963	153	108	7	206	39	2,476
Total other expenses	4,516	427	332	577	656	(249)	6,259
Operating income	2,683	255	176	213	387	(554)	3,160
Share of profits of jointly controlled entities and associates	(24)			43	(24)	22	17
Income tax expense (benefit)	590	59	40	58	24	(27)	744
Net income	(Won) 2,069	(Won) 196	(Won) 136	(Won) 198	(Won) 339	(Won) (505)	(Won) 2,433
Controlling interest	2,068	196	136	165	368	(796)	2,137
Non-controlling interest	1			33	(29)	291	296
Segments total assets	(Won) 242,472	(Won) 25,354	(Won) 18,030	(Won) 21,535	(Won) 25,381	(Won) (19,980)	(Won) 312,792

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

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Selected Financial Information

Average Balances and Related Interest

The following tables show our average balances and interest rates for 2010 and 2011:

	Year ended December 31, 2010 Average Balance[1]	2010 Interest Income[2][3]	2010 Average Yield	2011 Average Balance[1]	2011 Interest Income[2][3]	2011 Average Yield
	(in billions of Won except percentages)					
Assets						
Interest-earning assets						
Due from banks	(Won) 9,671	(Won) 116	1.20%	(Won) 10,615	(Won) 169	1.59%
Loans[4][5]						
Commercial and industrial	97,487	5,765	5.91	100,205	6,165	6.15
Trade financing	11,997	316	2.63	12,984	309	2.38
Lease financing	1,399	146	10.44	1,956	199	10.17
Other commercial	14,490	735	5.07	15,602	765	4.90
General purpose household[6]	70,132	3,554	5.07	69,954	3,735	5.34
Mortgage	4,748	245	5.16	8,643	452	5.23
Credit cards[3]	4,607	1,116	24.22	4,788	1,100	22.97
Total loans	204,860	11,877	5.80	214,132	12,725	5.94
Securities						
Trading	19,273	695	3.61	18,287	660	3.61
Investment[7]	37,466	1,237	3.30	37,359	1,360	3.64
Total securities	56,739	1,932	3.41	55,646	2,020	3.63
Other	8,850	132	1.49	10,378	131	1.26
Total average interest-earning assets	280,120	14,057	5.02	290,771	15,045	5.17
Total average non-interest-earning assets	13,979			14,456		
Total average assets	(Won) 294,099	(Won) 14,057	4.78%	(Won) 305,227	(Won) 15,045	4.93%

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	Year ended December 31,					
	2010			2011		
	Average Balance(1)	Interest Expense	Average Cost	Average Balance(1)	Interest Expense	Average Cost
	(in billions of Won, except percentages)					
Liabilities						
Interest-bearing liabilities						
Deposits due to customers:						
Demand deposits	(Won) 7,407	(Won) 20	0.27%	(Won) 10,728	(Won) 28	0.26%
Time and savings deposits	150,317	4,320	2.87	160,952	4,835	3.00
Certificates of deposit	8,459	364	4.30	2,746	113	4.12
Other deposits(8)	17,583	272	1.55	18,217	322	1.77
Total deposits	183,766	4,976	2.71	192,643	5,298	2.75
Borrowings	32,311	728	2.25	34,414	815	2.37
Debentures	33,523	1,808	5.39	30,433	1,551	5.10
Other	13,218	122	0.92	14,386	119	0.83
Total average interest-bearing liabilities	262,818	7,634	2.90	271,876	7,783	2.86
Total average non-interest-bearing liabilities	11,304			11,869		
Total average liabilities	274,122	7,634	2.78	283,745	7,783	2.74
Total average equity	19,977			21,482		
Total average liabilities and equity	(Won) 294,099	(Won) 7,634	2.60%	(Won) 305,227	(Won) 7,783	2.55%

(1) Average balances are based on daily balances for Woori Bank, Kyongnam Bank, Kwangju Bank and Woori Investment & Securities and on quarterly balances for all of our other subsidiaries and our special purpose companies.
(2) Includes cash interest received on non-accrual loans.
(3) Interest income from credit cards is derived from interest on credit card loans and credit card installment purchases, merchant fees and commission on cash advances and credit card installment purchases.
(4) Includes non-accrual loans.
(5) Not including other receivables, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.
(6) Includes home equity loans.
(7) Includes available-for-sale financial assets and held-to-maturity financial assets.
(8) Includes funds deposited by securities brokerage customers of Woori Investment & Securities and foreign currency-denominated deposits.

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Analysis of Changes in Net Interest Income   Volume and Rate Analysis

The following table provides an analysis of changes in interest income, interest expense and net interest income based on changes in volume and changes in rate for 2010 compared to 2011. 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.

	2011 vs. 2010		
	Increase/(decrease) due to changes in		
	Volume	Rate	Total
	(in billions of Won)		
Interest-earning assets			
Due from banks	(Won) 11	(Won) 42	(Won) 53
Loans[1]			
Commercial and industrial	161	239	400
Trade financing	26	(33)	(7)
Lease financing	58	(5)	53
Other commercial	56	(26)	30
General purpose household[2]	(9)	190	181
Mortgage	201	6	207
Credit cards	44	(60)	(16)
Securities			
Trading	(36)	1	(35)
Investment	(4)	127	123
Other	23	(24)	(1)
Total interest income	(Won) 531	(Won) 457	(Won) 988
Interest-bearing liabilities			
Deposits due to customers			
Demand deposits	(Won) 9	(Won) (1)	(Won) 8
Time and savings deposits	306	209	515
Certificate of deposit	(246)	(5)	(251)
Other deposits	10	40	50
Borrowings	47	40	87
Debentures	(167)	(90)	(257)
Other	11	(14)	(3)
Total interest expense	(Won) (30)	(Won) 179	(Won) 149
Net interest income	(Won) 561	(Won) 278	(Won) 839

(1) Not including other receivables, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.
(2) Includes home equity loans.

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Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 30, 2011, which was (Won)1,158.5 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 April 20, 2012, the noon buying rate was (Won)1,138.1 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average[1]	Period-End
2006	913.7	1,002.9	954.3	930.0
2007	903.2	950.2	929.0	935.8
2008	935.2	1,507.9	1,098.7	1,262.0
2009	1,149.0	1,570.1	1,274.6	1,163.7
2010	1,104.0	1,253.2	1,155.7	1,130.6
2011	1,049.2	1,197.5	1,106.9	1,158.5
October	1,102.5	1,197.5	1,150.7	1,112.1
November	1,110.6	1,162.0	1,133.5	1,140.1
December	1,124.5	1,175.5	1,148.1	1,158.5
2012 (through April 20)	1,115.7	1,160.0	1,130.6	1,138.1
January	1,120.1	1,160.0	1,140.3	1,125.7
February	1,115.7	1,128.9	1,122.7	1,117.1
March	1,116.0	1,139.8	1,126.2	1,131.4
April (through April 20)	1,122.4	1,143.4	1,134.8	1,138.1

Source: Federal Reserve Bank of New York.

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

Item 3B. ***Capitalization and Indebtedness***
Not Applicable

Item 3C. ***Reasons for the Offer and Use of Proceeds***
Not Applicable

Item 3D. ***Risk Factors***
Risks relating to our corporate credit portfolio

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

Our loans to small- and medium-sized enterprises amounted to (Won)81,618 billion, or 40.6% of our total loans, as of December 31, 2010 and (Won)83,624 billion, or 39.4% of our total loans, as of December 31, 2011. As of December 31, 2011, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were (Won)1,744 billion, representing 2.1% of such loans to those enterprises. See Item 4B. Business Overview Corporate Banking Small and Medium-Sized Enterprise Banking. We recorded charge-offs of (Won)758 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2011, compared to charge-offs of (Won)614 billion in 2010. According to data compiled by the Financial Supervisory Service, the industry-wide delinquency ratios for

Won-denominated loans to small- and medium-sized enterprises increased through most of 2010 and further increased in 2011. The delinquency ratio for small- and medium-sized enterprises is calculated as the ratio of (1) the outstanding balance of such loans in respect of which either principal or interest payments are over due by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won was 1.5% as of December 31, 2010 and 1.6% as of December 31, 2011. Our delinquency ratio may increase further in 2012 as a result of, among other things, adverse economic conditions in Korea and globally. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our liquidity and performance. Accordingly, we may be required to take measures to decrease our exposures to these customers.

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In light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. For example, the Korean government requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track programs established by Woori Bank, Kyongnam Bank and Kwangju Bank, which are currently expected to be effective through December 31, 2012, liquidity assistance is provided to small- and medium-sized enterprise borrowers applying for such assistance, in the form of new short term loans or maturity extensions or interest rate adjustments with respect to existing loans, after expedited credit review and approval by such banks. The overall prospects for the Korean economy in 2012 and beyond remain uncertain, and the Korean government may extend existing policies and initiatives or introduce new policies or initiatives to encourage Korean banks to provide financial support to small- and medium-sized enterprises. We believe that, to date, our participation in such government-led initiatives (primarily through the fast track program) has not caused us to extend a material amount of credit that we would not have otherwise extended nor materially impacted our results of operations and financial condition in general. The aggregate amount of outstanding small- and medium-sized enterprise loans made by Woori Bank, Kyongnam Bank and Kwangju Bank under the fast track program was (Won)311 billion as of December 31, 2011, which represented 0.4% of the total small- and medium-sized enterprise loan portfolio of such banks as of such date. Furthermore, loans made by us under the fast track program are partially guaranteed by the Korean government s public financial institutions, including the Korea Credit Guarantee Fund and the Korea Technology Finance Corporation. However, there can be no assurance that our future participation in such government-led initiatives would not lead us to extend credit to small- and medium-sized enterprise borrowers that we would not otherwise extend, or offer terms for such credit that we would not otherwise offer, in the absence of such initiatives. Furthermore, there is no guarantee that the financial condition and liquidity position of our small- and medium-sized enterprise borrowers benefiting from such initiatives will improve sufficiently for them to service their debt on a timely basis, or at all. Accordingly, increases in our exposure to small- and medium-sized enterprises resulting from such government-led initiatives may have a material adverse effect on our results of operations and financial condition.

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

In addition, many small- and medium-sized enterprises have close business relationships with large corporations in Korea, primarily as suppliers. Any difficulties encountered by those large corporations would likely hurt the liquidity and financial condition of related small- and medium-sized enterprises, including those to which we have exposure, also resulting in an impairment of their ability to repay loans.

Financial difficulties experienced by small- and medium-sized enterprises as a result of, among other things, adverse economic conditions in Korea and globally, as well as aggressive marketing and intense competition among banks to lend to this segment in recent years, have led to a deterioration in the asset quality of our loans to this segment in the past and such factors may lead to a deterioration of asset quality in the future. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact on our financial condition and results of operations.

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

As of December 31, 2011, the total amount of loans provided by us to construction and shipbuilding companies in Korea amounted to (Won)9,734 billion and (Won)1,931 billion, or 4.6% and 0.9% of our total loans, respectively. We also have other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts. In the case of construction companies, we also have potential exposures in the form of guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects, as well as commitments to purchase asset-backed securities secured by the assets of companies in the construction industry and other commitments we enter into relating to project financing for such real estate projects which may effectively function as guarantees.

The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy commencing in the second half of 2008. In October 2008, the Korean government implemented a (Won)9 trillion support package for the benefit of the Korean construction industry, including a program to buy unsold housing units and land from construction companies. The shipbuilding industry in Korea has also experienced a severe downturn in recent years due to a significant decrease in ship orders, primarily due to adverse conditions in the global economy and the resulting slowdown in global trade. In response to the deteriorating financial condition and liquidity position of borrowers in the construction and shipbuilding industries, which were disproportionately impacted by adverse economic developments in Korea and globally, the Korean government implemented a program in the first half of 2009 to promote expedited restructuring of such borrowers by their Korean creditor financial institutions, under the supervision of major commercial banks. In accordance with such program, 24 construction companies and five shipbuilding companies became subject to workout in 2009, following review by their creditor financial institutions (including Woori Bank, Kyongnam Bank and Kwangju Bank) and the Korean government. In addition, in June 2010, the Financial Services Commission and the Financial Supervisory Service announced that, following credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea with outstanding debt of (Won)50 billion or more, 65 companies had been selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction companies and three were shipbuilding companies. However, there is no assurance that these measures will be successful in stabilizing the Korean construction and shipbuilding industries.

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

We also have construction-related credit exposures under our project financing loans for real estate development projects in Korea. In light of the general deterioration in the asset quality of real estate project financing loans in Korea in recent years, Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, implemented a uniform set of guidelines regarding the evaluation of real estate development projects and asset quality classification of project financing loans for such projects in September 2010. Under these guidelines, which became effective from the third quarter of 2010, Korean banks are generally required to apply more stringent criteria in evaluating the asset quality of real estate project financing loans. As a result, we may be required to establish additional provisions with respect to our outstanding real estate project financing loans, which could adversely affect our financial condition and results of operations.

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

Of our 20 largest corporate exposures (including loans, debt and equity securities, credit-related commitments and other exposures) as of December 31, 2011, seven 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)37,801 billion, or 9.9% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could incur additional bad debt expenses, which would hurt our results of operations and financial condition. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Exposure to Chaebols.

The provisions we have established against these exposures may not be sufficient to cover all future losses arising from these exposures. In addition, in the case of companies that are in or in the future enter into workout, restructuring, reorganization or liquidation proceedings, our recoveries from those companies may be limited. We may, therefore, experience future losses with respect to these exposures.

A large portion of our exposure is concentrated in a relatively small number of large corporate borrowers, which increases the risk of our corporate credit portfolio.

As of December 31, 2011, our 20 largest exposures to corporate borrowers totaled (Won)46,006 billion, which represented 12.1% of our total exposures. As of that date, our single largest corporate exposure was to the Bank of Korea, to which we had outstanding credits in the form of debt securities of (Won)12,029 billion, representing 3.2% of our total exposures. Aside from exposure to the Korean government and government-related agencies, our next largest exposure was to Samsung Electronics, to which we had outstanding exposure of (Won)1,665 billion representing 0.4% of our total exposures. Any deterioration in the financial condition of our large corporate borrowers may require us to take substantial additional provisions and may have a material adverse impact on our results of operations and financial condition.

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

As of December 31, 2011, our credit exposures to companies that were in workout or corporate restructuring amounted to (Won)3,953 billion or 1.2% of our total credit exposures, of which (Won)2,190 billion or 55.4% was classified as substandard or below and all of which was classified as impaired. As of the same date, our provisions for credit losses on these credit exposures amounted to (Won)1,400 billion, or 35.4% of these exposures. These provisions 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, 2011 to companies in workout or restructuring amounted to (Won)4,173 billion, or 1.1% of our total exposures. Our exposures to such companies may also increase in the future, including as a result of adverse conditions in the Korean economy. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of our credits to other creditors on unfavorable terms, which may adversely affect our results of operations and financial condition.

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

Several member companies of the Kumho Asiana Group, one of Korea s largest chaebols, have been experiencing financial difficulties, including as a result of their heavily leveraged acquisition of Daewoo Engineering & Construction Co., Ltd. in 2006 and the subsequent global financial crisis commencing in the second half of 2008. In January 2010, Kumho Tires Co., Inc. and Kumho Industrial Co., Ltd. agreed with their creditors, including us, to begin an out-of-court debt restructuring program under the Corporate Restructuring Promotion Act. In addition, Kumho Petrochemical Co., Ltd. and Asiana Airlines announced that they would undergo a voluntary restructuring, in return for which their creditors, including us, agreed to a suspension of payments on the two companies debt until the end of 2010. These four companies are member companies of the Kumho Asiana Group. As of December 31, 2011, our aggregate credit exposures to Kumho Tires, Kumho Industrial, Kumho Petrochemical and Asiana Airlines, consisting primarily of loans extended to such companies and also including other exposures such as project finance-related exposures, amounted to (Won)1,560 billion, none of which was classified as substandard or below. As of December 31, 2011, our provisions for credit losses with respect to such credit exposures amounted to (Won)100 billion. We also had exposure relating to put options granted to us in connection with our co-investment in Daewoo Engineering & Construction with the Kumho Asiana Group. Moreover, in the first four months of 2012, we extended additional loans to such companies in the aggregate amount of approximately (Won)9 billion. We also converted an aggregate of (Won)115 billion of our loans to such companies into equity interests in such companies in connection with such restructuring programs. Our provisions may not be sufficient to cover all future losses arising from our exposures to these companies. Furthermore, in the event that the financial condition of these companies deteriorates further in the future, we may be required to record bad debt expenses, as well as charge-offs and valuation or impairment losses or losses on disposal, which may have a material adverse effect on our financial condition and results of operations.

Risks relating to our consumer credit portfolio

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

In recent years, consumer debt has increased rapidly in Korea. Our portfolio of consumer loans amounted to (Won)66,758 billion as of December 31, 2010 and (Won)72,914 billion as of December 31, 2011. Our credit card portfolio amounted to (Won)4,357 billion as of December 31, 2010 and (Won)4,592 billion as of December 31, 2011. As of December 31, 2011, our consumer loans and credit card receivables represented 34.3% and 2.2% of our total lending, respectively. See Item 4B. Business Overview Consumer Banking Lending Activities and Item 4B. Business Overview Credit Cards Products and Services.

The growth in our consumer loan portfolio in recent years, together with adverse economic conditions in Korea and globally, may lead to increasing delinquencies and a deterioration in asset quality. The amount of our consumer loans classified as substandard or below was (Won)343 billion (or 0.5% of our consumer loan portfolio) as of December 31, 2010 and (Won)396 billion (or 0.5% of our consumer loan portfolio) as of December 31, 2011. We charged off consumer loans amounting to (Won)89 billion in 2011, as compared to (Won)106 billion in 2010, and recorded bad debt expenses in respect of consumer loans of (Won)158 billion in 2011, as compared to (Won)130 billion in 2010. 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, amounted to (Won)26,645 billion, or 39.9% of our total outstanding consumer loans, as of December 31, 2010 and (Won)27,940 billion, or 38.3% of our total outstanding consumer loans, as of December 31, 2011.

In our credit card segment, outstanding balances overdue by 30 days or more amounted to (Won)103 billion, or 2.4% of our credit card receivables, as of December 31, 2010 and (Won)92 billion, or 2.0% of our credit card receivables, as of December 31, 2011. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2011, these restructured loans amounted to (Won)51 billion, or 1.1% 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 3.1% of our credit card balances as of December 31, 2011. We charged off credit card balances amounting to (Won)142 billion in 2011, as compared to (Won)140 billion in 2010, and recorded bad debt expenses in respect of credit card balances of (Won)115 billion in 2011, as compared to (Won)60 billion in 2010. Delinquencies may increase in the future as a result of, among other things, adverse economic conditions in Korea, difficulties experienced by other credit card issuers that adversely affect our customers, additional government regulation or the inability of Korean consumers to manage increased household debt.

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

In light of adverse conditions in the Korean economy affecting consumers, in March 2009, the Financial Services Commission requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following successive extensions by the Korean government, is expected to continue until April 2013. Under the pre-workout program, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than (Won)500 million who are in arrears on their payments for more than 30 days but less than 90 days. The aggregate amount of consumer credit (including credit card receivables) provided by Woori Bank, Kyongnam Bank and Kwangju Bank which became subject to the pre-workout program in 2011 was (Won)29 billion. While we believe that our participation in such pre-workout program has not had a material impact on the overall credit quality of our consumer loan and credit card portfolio or on our results of operations and financial condition to date, our future participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 60% of the appraised value of collateral (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 60% of the appraised value of collateral) and to periodically re-appraise our collateral, the downturn in the real estate markets in Korea in recent years has resulted in declines in the value of the collateral securing our mortgage and home equity loans. If collateral values decline further in the future, they may not be sufficient to cover uncollectible amounts in respect of our secured loans. Any future declines in the value of the real estate or other collateral securing our consumer loans, or our inability to obtain additional collateral in the event of such declines, could result in a deterioration in our asset quality and may require us to take additional provisions for credit losses.

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

Risks relating to our financial holding company structure and strategy

We may not be successful in taking 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 continue to standardize and upgrade the risk management operations of our subsidiaries. We are also continuing our efforts to diversify our product offerings through, among other things, the expansion of our insurance business following the establishment of Woori Aviva Life Insurance in 2008 and increased marketing of insurance products through our bancassurance channels, as well as further expansion of our investment banking and investment trust operations. The implementation of these and other plans that we may pursue to take advantage of our integrated financial holding company structure may require additional investments of capital, infrastructure, human resources and management attention and entails certain risks, including the possibility that:

- we may fail to further integrate and upgrade our diverse systems and operations as needed to maximize synergies among our operating subsidiaries;

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- 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 continue realizing operational efficiencies and to cross-sell new products and services.

If we are not successful in implementing our current and future plans, we may incur losses on our investments and our results of operations and financial condition may suffer.

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

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

Separately, in May 2011, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its plans to privatize us through a sale of up to the entire 56.97% equity stake (and a minimum of a 30% equity stake) held by the Korean government through the KDIC through a competitive bidding process from May to June 2011, during which period only one bid was submitted by a consortium led by a Korean private equity fund. As a result, the Public Funds Oversight Committee announced the suspension of the sale process in August 2011. On April 30, 2012, the Public Funds Oversight Committee announced a new privatization plan, pursuant to which a preliminary bidding process began on April 30, 2012 and will remain open until July 27, 2012. The latest privatization plan contemplates a sale of up to the entire 56.97% equity stake (and a minimum of a 30% equity stake), similar to the May 2011 plan, but also allows bids that seek to privatize us through a merger with or integration into another financial institution in return for stock and/or cash consideration.

In addition, we purchased certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly-owned subsidiary, Woori FG Savings Bank Co., Ltd., which began operating in March 2011. As part of our strategy, we also intend to continue to seek opportunities to expand our overseas operations, including potentially through acquisitions and investments in the U.S., Europe and Asia. The integration of our subsidiaries separate businesses and operations, as well as those of any companies we may merge with or acquire in the future, could require a significant amount of time, financial resources and management attention, and may result in increased capital requirements and greater credit and other exposures. Moreover, the integration process could disrupt our operations (including our risk management operations) or information technology systems, reduce employee morale, produce unintended inconsistencies in our standards, controls, procedures or policies, and affect our relationships with customers and our ability to retain key personnel.

The continued implementation of our reorganization and integration plan, as well as any future additional integration plans that we may adopt in connection with our mergers or acquisitions or otherwise, and the realization of the anticipated benefits of our financial holding company structure and any mergers or acquisitions we decide to pursue may be blocked, delayed or reduced as a result of many factors, some of which may be outside our control. These factors include:

- difficulties in integrating the diverse activities and operations of our subsidiaries or any companies we may merge with or acquire, including risk management operations and information technology systems, personnel, policies and procedures;
- difficulties in reorganizing or reducing overlapping personnel, branches, networks and administrative functions;
- restrictions under the Financial Holding Company Act, the Financial Investment Services and Capital Markets Act and other regulations on transactions between our company and, or among, our subsidiaries;
- unexpected business disruptions;
- loss of customers; and
- labor unrest.

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

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

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

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

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

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

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

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

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

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

- under the Bank Act, a bank also must credit at least 10% of its net profit to a legal reserve each time it pays dividends on distributable income until that reserve equals the amount of its total paid-in capital; and under the Bank Act and the requirements of the Financial Services Commission, if a bank fails to meet its required capital adequacy ratio or otherwise subject to the management improvement measures imposed by the Financial Services Commission, then the Financial Services Commission may restrict the declaration and payment of dividends by that bank.

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

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

Risks relating to competition

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

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

In addition, we believe that regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank s merger with Shinhan Bank in April 2006 and Hana Financial Group s acquisition of a controlling interest in Korea Exchange Bank in February 2012. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank. Other financial institutions may seek to acquire or merge with such or other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

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

Other risks relating to our business

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

During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 325 basis points in order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2012 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor s Rating Services of the long-term sovereign credit rating of the United States to AA+ from AAA in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Spain, Italy and other countries in Europe. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons program, as well as political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are implementing exit strategies, in the form of reduced government spending or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products (although we do not currently have material exposures to Greece, Spain, Italy and other countries in Europe which are facing financial difficulties, in the form of sovereign debt or otherwise). Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments in jointly controlled entities and associates.

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

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

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank, Kyongnam Bank, Kwangju Bank and the KDIC, we and our subsidiaries are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2012. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As a result of deteriorating economic and financial market conditions in Korea and globally, both we and Woori Bank failed to meet our respective return on assets targets, expense-to-revenue ratio targets and operating income per employee targets as of December 31, 2008. In September 2009, the KDIC imposed an institutional warning on us and Woori Bank, as well as reprimands and warnings on 11 current and former executive officers of Woori Bank, in connection with our and Woori Bank s failures to meet such financial targets, including as a result of losses incurred on collateralized debt obligations and other credit derivatives. In February and October 2010 and February 2011, the KDIC imposed institutional warnings on Woori Bank in connection with its failure to meet its financial targets with respect to operating income per employee as of September 30, 2009 and return on assets and non-performing loan ratio as of June 30 and September 30, 2010, respectively. In October 2010, the KDIC imposed an institutional warning on Kyongnam Bank, as well as reprimands and warnings on 10 current and former executive officers of Kyongnam Bank, in connection with certain fraudulent transactions undertaken on behalf of Kyongnam Bank by certain employees and their potential impact on Kyongnam Bank. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kyongnam Bank. In April 2011, the KDIC imposed another institutional warning on us and Woori Bank, as well as a warning on the former chief executive officer of Woori Bank, in connection with our and Woori Bank s failure to meet our financial targets with respect to our non-performing loan ratio and Woori Bank s return on assets as of December 31, 2010. We, Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in March 2012.

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.

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

We have provided certain assets as collateral for our secured borrowings in recent years. These secured borrowings often take the form of asset securitization transactions, where we nominally sell our assets to a securitization vehicle that issues securities backed by those assets, although the assets remain on our statements of financial position. 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, 2011, the aggregate amount of assets we had provided as collateral for our secured borrowings was (Won)11,611 billion. As of that date, we had established provisions of (Won)156 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 provisions.

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

Interest rates in Korea have been subject to significant fluctuations in recent years. In late 2008 and early 2009, the Bank of Korea reduced its policy rate by a total of 325 basis points to support Korea s economy amid the global financial crisis, and left the key interest rate unchanged at 2.00% throughout 2009. In an effort to stem inflation amid improved growth prospects, the Bank of Korea increased its policy rate to 2.25% in July 2010, 2.50% in November 2010, 2.75% in January 2011, 3.00% in March 2011 and 3.25% in June 2011. All else being equal, an increase in interest rates leads to a decline in the value of our portfolio of debt securities, which generally pay interest based on a fixed rate. 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 asset portfolio and our liabilities in order to minimize the risk of potential mismatches and maintain our profitability. See Item 11. Quantitative and Qualitative Disclosures About Market Risk. In addition, rising interest rate levels may adversely affect the Korean economy and the financial condition of our corporate and consumer borrowers, including holders of our credit cards, which in turn may lead to a deterioration in our credit portfolio. In particular, since most of our consumer and corporate loans bear interest at rates that adjust periodically based on prevailing market rates, a sustained increase in interest rate levels will increase the interest costs of our consumer and corporate borrowers and will adversely affect their ability to make payments on their outstanding loans.

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

Our banking subsidiaries meet a significant amount of their funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2011, approximately 98.8% 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 the event that a substantial number of these short-term deposit customers withdraw their funds or fail to roll over their deposits as higher-yielding investment opportunities emerge, our liquidity position could be adversely affected. Our banking subsidiaries may also be required to seek more expensive sources of short-term and long-term funding to finance their operations. See Item 5B. Liquidity and Capital Resources Financial Condition Liquidity.

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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, 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, 2011, 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, among others) with a total book value of (Won)7,524 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated statements of financial position is determined by references to suggested prices posted by Korean rating agencies, which measure prices based on observable market data. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

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

Under the capital adequacy requirements of the Financial Services Commission, we, as a bank holding company, are required to maintain a minimum consolidated capital adequacy ratio, which is the ratio of equity capital as a percentage of risk-weighted assets on a consolidated basis, of 8.0%. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy. In addition, each of our commercial banking subsidiaries is required to maintain a minimum combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. In both cases, Tier II capital is included in calculating the combined Tier I and Tier II capital adequacy ratio up to 100% of Tier I capital. In addition, the current terms of the memoranda of understanding among us, our subsidiaries and the KDIC require us and our subsidiaries to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Relationship with the Korean Government. As of December 31, 2011, our capital ratio and the capital adequacy ratios of our subsidiaries exceeded the minimum levels required by both the Financial Services Commission and these memoranda. However, our capital base and capital adequacy ratio or those of our subsidiaries may deteriorate in the future if our or their results of operations or financial condition deteriorates for any reason, or if we or they are not able to deploy their funding into suitably low-risk assets. To the extent that our subsidiaries fail to maintain their capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on them ranging from a warning to suspension or revocation of their licenses.

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

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

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

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements, and Kyongnam Bank has begun following an internal ratings-based approach from September 2011. Kwangju Bank, which is in the process of establishing an internal ratings-based approach, currently uses a standardized approach. For regulatory reporting purposes, from September 30, 2008, Woori Bank implemented its internal ratings-based approach for credit risk, beginning with its credit risk with respect to retail, small- and medium-size enterprises and large corporate loans and asset-backed securities portfolios, and plans to further implement its internal ratings-based approach to its specialized lending portfolio upon approval by the Financial Supervisory Service. A standardized approach will be used in measuring credit risk for those classes of exposure for which Woori Bank s internal ratings-based approach has not yet been implemented, as well as for certain classes of exposure (including those to the Korean government, public institutions and other banks) for which the internal ratings-based approach will not be applied. Woori Bank plans to implement an advanced internal ratings-based approach for credit risk in the near future. Woori Bank also implemented a standardized approach for operational risk beginning on January 1, 2008, and implemented an advanced measurement approach for operational risk in June 2009.

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

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

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

We engage in limited activities relating to Iran and may become subject to sanctions under relevant laws and regulations of the United States and other jurisdictions as a result of such activities, which may adversely affect our business and reputation.

The U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, enforces certain laws and regulations that impose restrictions upon U.S. persons with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such OFAC sanctions, including Iran. Even though non-U.S. persons are not directly bound by such OFAC sanctions, in recent years OFAC has asserted that such non-U.S. persons can be held liable if they cause violations by U.S. persons. The European Union, or E.U., also enforces certain laws and regulations that impose restrictions upon nationals and entities of, and business conducted in, E.U. member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such E.U. sanctions, including Iran. The United Nations Security Council and other governmental entities also impose similar sanctions.

In addition to the OFAC sanctions described above, the United States maintains programs under the Iran Sanctions Act, the Comprehensive Iran Sanctions, Accountability, and Divestment Act of 2010, or CISADA, Executive Order 13590 and the National Defense Authorization Act for Fiscal Year 2012, or the NDAA, that provide authority for the imposition of U.S. sanctions on foreign parties that conduct certain activities with respect to Iran s oil and gas industry and Iran s financial sector. Such programs provide for the possible imposition of sanctions on any person engaged in transactions above a specified dollar threshold in connection with the development or maintenance of the Iranian oil and gas production, refining, or petrochemical industries, the export of refined petroleum products to Iran above a specified threshold or Iran s acquisition of weapons of mass destruction or advanced conventional weapons. A range of sanctions may be imposed on companies that engage in sanctionable activities, including among other things the blocking of any property subject to U.S. jurisdiction in which the sanctioned company has an interest, which could include a prohibition on transactions or dealings involving securities of the sanctioned company.

Sanctions under the above-described programs also target foreign financial institutions that facilitate significant transactions with designated Iranian financial institutions or knowingly facilitate transactions connected to Iranian weapons of mass destruction or terror activities or for designated parties linked to the Iranian Revolutionary Guard Corps or subject to United Nations sanctions against Iran. Financial institutions engaging in targeted activity could be sanctioned by termination of their ability to maintain correspondent accounts in the United States. These programs were recently extended under the NDAA to cover transactions with the Bank Markazi Jomhouri Islami Iran, also referred to as the Central Bank of Iran or CBI. Foreign financial institutions owned or controlled by a foreign government could lose access to U.S. correspondent accounts if they facilitate transactions for the sale or purchase of petroleum or petroleum products involving the CBI. The imposition of sanctions against foreign entities pursuant to such programs is not automatic (requiring further action by the U.S. administration) and, with respect to the new provisions targeting CBI, is subject to several important potential exceptions, including discretionary determinations by the U.S. government that the price and supply of non-Iranian petroleum products are not sufficient to permit those purchasing Iranian petroleum products to significantly reduce the volume of purchases, that the country with primary jurisdiction over a foreign financial institution has significantly reduced its purchases of Iranian crude oil, or that the national security interest of the United States requires a waiver of sanctions. It is our understanding that the Korean government has been and continues to be in discussions with the U.S. government regarding the application of the sanctions and exceptions to Korean companies, and it is unclear how or whether any of the potential sanctions or exceptions would be applied. Iran has also been designated as a jurisdiction of primary money laundering concern under Section 311 of the USA PATRIOT Act, potentially subjecting banks dealing with Iranian financial institutions to increased regulatory scrutiny.

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Korea has also adopted a sanctions program targeting Iran in accordance with the series of relevant resolutions adopted by the United Nations Security Council. In particular, in September 2010, the Korean government announced broad sanctions implementation guidelines covering financial, trade, transportation and energy-related activities with Iran, which also included a proposal to facilitate legitimate trade between Korea and Iran through Won-denominated settlement accounts to be opened by CBI at certain Korean banks for such purpose. In December 2011, the Korean government announced expanded sanctions against Iran, including the addition of 99 entities and six individuals that are related to Iran s nuclear program to the Korean government s sanctioned party list with respect to Iran.

Woori Bank, which we believe would be considered as a foreign financial institution owned or controlled by a foreign government under the NDAA, operates certain accounts for CBI, which were opened pursuant to a service agreement entered into by Woori Bank and CBI in September 2010 to facilitate trade between Korea and Iran. The accounts opened by CBI consist of Won-denominated accounts which are used for the settlement of exports of goods to Iran by Korean exporters and Won, U.S. dollar, euro and Japanese Yen-denominated accounts which are used for the settlement of imports of oil and gas from Iran by Korean importers. By the terms of the service agreement between Woori Bank and CBI, settlement of export and import transaction payments through such accounts opened by CBI are effected by crediting or debiting the relevant amount to or from the applicable accounts while a corresponding payment of funds is made to or from an Iranian bank by CBI, and generally does not involve any actual transfer of the relevant funds from such accounts at Woori Bank to CBI s accounts in Iran or elsewhere for such settlement. Additionally, by the terms of an amendment to such service agreement between Woori Bank and CBI, CBI may not transfer any funds from its U.S. dollar-denominated account at Woori Bank to bank accounts held by CBI outside of Korea. Our commercial banking subsidiaries, including Woori Bank, also provide limited export-import financing services to Korean exporters and importers in connection with their trade transactions with Iran that are permitted under the relevant Korean sanctions, primarily by discounting, advising on or issuing letters of credit, which are settled through the accounts opened by CBI at Woori Bank. Furthermore, our commercial banking subsidiaries occasionally act as recipient bank on behalf of Korean exporters for international money transfers from Iranian importers and maintain a limited number of deposit accounts in Korea for Iranian financial institutions. In addition, Woori Bank may in the future be requested by the Korean government to participate in the settlement, through the accounts opened by CBI at Woori Bank, of certain past trade transactions involving Iran which were frozen prior to the implementation of Iran-related economic sanctions and export controls by the Korean government in 2010.

The applicable laws and regulations and banking guidelines of Korea require that trade transactions between Korean and Iranian parties be subject to prior certification and clearance by relevant Korean governmental authorities (or organizations designated thereby) to ensure compliance with Korean economic sanctions and export controls against Iran, and the settlement of payments through the accounts opened by CBI at Woori Bank are not permitted without such prior certification and clearance.

There is no guarantee that our activities relating to Iran will not be found to constitute sanctionable activities or that we will not be subjected to liability as a result of such activities. Our business and reputation could be adversely affected if the U.S. government or other governments were to determine that our Iran-related activities (including the operation of the accounts opened by CBI at Woori Bank) involve sanctionable activity under any of the relevant sanctions. Our investors may also be adversely affected if we are found to violate any of the relevant sanctions, or if any sanctions with which the investors are required to comply results in their investment in us being restricted. If we are sanctioned under the Iran Sanctions Act as amended by CISADA, such sanctions could include the blocking of any property in which we have an interest, which would effectively prohibit all U.S. persons from receiving any payments from us or our commercial banking subsidiaries, or otherwise acquiring, holding, withholding, using, transferring, withdrawing, transporting, importing, or exporting any property in which we have any interest. Furthermore, any prohibition or conditions placed on our use of U.S. correspondent accounts could effectively eliminate our access to the U.S. financial system, including U.S. dollar clearing transactions, which would adversely affect our business. If the U.S. government were to challenge the compatibility of the accounts opened by CBI at Woori Bank with the relevant sanctions, while no assurances can be given that any such measures would be successful, we intend to take all necessary measures to the extent possible to ensure that prohibitions or conditions are not placed on our use of U.S. correspondent accounts, including closing the accounts opened by CBI at Woori Bank if required.

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Furthermore, some of our U.S. investors may be required to divest their investments in us under the laws of certain U.S. states or under internal investment policies or may decide for reputational reasons to divest such investments. We are aware of initiatives by U.S. governmental entities and U.S. institutional investors, such as pension funds, to adopt or consider adopting laws, regulations, or policies prohibiting transactions with or investment in, or requiring divestment from, entities doing business with countries identified as state sponsors of terrorism. There can be no assurance that the foregoing will not occur or that such occurrence will not have a material adverse effect on the value of our common stock and ADSs.

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

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

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

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

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

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

Risks relating to government control

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

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

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

Risks relating to government regulation and policy

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

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

In the past, the Korean government has also announced policies under which financial institutions in Korea are encouraged to provide financial support to particular sectors. For example, in light of the deteriorating financial condition and liquidity position of small- and medium-sized enterprises in Korea as a result of the global financial crisis commencing in the second half of 2008 and adverse conditions in the Korean economy affecting consumers, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

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

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

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

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

In September 2009, the Financial Services Commission imposed an institutional warning on us and Woori Bank in connection with Woori Bank s losses on collateralized debt obligations and other credit derivatives in recent years. The Financial Services Commission also required Woori Bank to enter into a memorandum of understanding with the Financial Supervisory Service, which was entered into in December 2009 and required Woori Bank to implement specific measures to improve its risk management systems and internal controls (including with respect to its board practices, investment and credit risk management-related processes, compliance monitoring and internal audit practices). In addition, the Financial Services Commission imposed warnings and reprimands on certain of Woori Bank s current and former executive officers, including current and former chief executive officers of Woori Bank. In October 2010, the Financial Services Commission suspended Kyongnam Bank from accepting new specified money trust accounts for three months and imposed reprimands and warnings on 22 executive officers and employees of Kyongnam Bank in connection with certain fraudulent transactions ostensibly undertaken on behalf of Kyongnam Bank by certain employees, as well as ordering the dismissal of three employees who were principally involved in the incident. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition and Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kyongnam Bank.

Risks relating to Korea

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

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

In recent years, adverse conditions and volatility in the worldwide financial markets, fluctuations in oil and commodity prices and the general weakness of the U.S. and global economy have contributed to the uncertainty of global economic prospects in general and have adversely affected, and may continue to adversely affect, the Korean economy. See Other risks relating to our business Difficult conditions in the global financial markets could adversely affect our results of operations and financial condition. Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won increases the cost of imported goods and services and the Won revenue needed by Korean companies to service foreign currency-denominated debt. An appreciation of the Won, on the other hand, causes export products of Korean companies to be less competitive by raising their prices in terms of the relevant foreign currency and reduces the Won value of such export sales. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies. The Korea Composite Stock Price Index (known as the KOSPI) declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. While the KOSPI recovered to a significant extent since 2008, there has been significant volatility in the KOSPI commencing in the second half of 2011, particularly following the downgrading by Standard & Poor s Rating Services of the long-term sovereign credit rating of the United States to AA+ from AAA in August 2011 and in light of the financial difficulties affecting many other governments worldwide, in particular Greece, Spain, Italy and other countries in Europe. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Future declines in the KOSPI and large amounts of sales of Korean securities by foreign investors and subsequent repatriation of the proceeds of such sales may adversely affect the value of the Won, the foreign currency reserves held by financial institutions in Korea, and the ability of Korean companies to raise capital. Any future deterioration of the Korean or global economy could adversely affect our business, financial condition and results of operations.

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

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

- adverse changes or volatility in foreign currency reserve levels, commodity prices (including oil prices), exchange rates (including fluctuation of the U.S. dollar or Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates and stock markets;

- adverse conditions in the economies of countries that are important export markets for Korea, such as the United States, Japan and China, or in emerging market economies in Asia or elsewhere;

- substantial decreases in the market prices of Korean real estate;

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

- declines in consumer confidence and a slowdown in consumer spending;

- difficulties in the financial sector in Korea, including the savings bank sector;

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

- social and labor unrest;

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

- financial problems or lack of progress in the restructuring of *chaebols*, other large troubled companies, their suppliers or the financial sector;

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

- increases in social expenditures to support an aging population in Korea or decreases in economic productivity due to the declining population size in Korea;

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

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

natural disasters that have a significant adverse economic or other impact on Korea or its major trading partners, such as the earthquake and tsunami that occurred in the northeast part of Japan in March 2011 and any resulting releases of radiation from damaged nuclear power plants in the area;

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

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

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

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

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

changes in financial regulations in Korea.

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events.

In particular, since the death of the North Korean ruler Kim Jong-il in December 2011, there has been increased uncertainty with respect to the future of North Korea s political leadership and concern regarding its implications for political and economic stability in the region. Before his death, Kim Jong-il designated his third son, Kim Jong-eun, as his successor and named him as the vice chairman of the Central Military Commission and a general of the North Korean army. In April 2012, Kim Jong-eun also became the chairman of the National Defense Commission. However, the eventual outcome of such leadership transition remains uncertain. Furthermore, only limited information is available outside of North Korea about Kim Jong-eun, who is reported to be in his late twenties, and it is unclear which individuals or factions, if any, will share political power with Kim Jong-eun or assume the leadership if the transition is not successful. Accordingly, there is significant uncertainty regarding the policies, actions and initiatives that North Korea might pursue in the future.

In recent years, there have also been heightened security concerns stemming from North Korea s nuclear weapons and long-range missile programs and increased uncertainty regarding North Korea s actions and possible responses from the international community. North Korea announced in October 2006 that it had successfully conducted a nuclear test, which increased tensions in the region and elicited strong objections worldwide. In May 2009, North Korea announced that it had successfully conducted a second nuclear test. In response, the United Nations Security Council unanimously passed a resolution that condemned North Korea for the nuclear test and decided to expand and tighten sanctions against North Korea. In March 2010, a Korean warship was destroyed by an underwater explosion, killing many of the crewmen on board. The Korean government formally accused North Korea of causing the sinking, while North Korea denied responsibility and threatened retaliation for any attempt to punish it over the incident. In November 2010, North Korea reportedly fired more than one hundred artillery shells that hit Korea s Yeonpyeong Island near the maritime border between Korea and North Korea on the west coast of Korea, killing two Korean soldiers and two civilians, wounding many others and causing significant property damage. Korea responded by firing artillery shells back and putting the military on its highest level of alert. The Korean government condemned North Korea for the act and vowed stern retaliation should there be further provocation. In April 2012, North Korea attempted to launch a long-range missile, which it characterized as a satellite launch. In response, the United Nations Security Council unanimously issued a presidential statement that condemned North Korea for the attempted launch and decided to further expand and tighten sanctions against North Korea.

North Korea s economy also faces severe challenges. For example, in November 2009, the North Korean government redenominated its currency at a ratio of 100 to 1 as part of a currency reform undertaken in an attempt to control inflation and reduce income gaps. In tandem with the currency redenomination, the North Korean government banned the use or possession of foreign currency by its residents and closed down privately run markets, which led to severe inflation and food shortages. Such developments may further aggravate social and political tensions within North Korea.

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

Labor unrest in Korea may adversely affect our operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate was 3.2% in 2008, increased to 3.7% but decreased to 3.4% in 2011. Future increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. These developments would likely have an adverse effect on our financial condition and results of operations.

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Risks relating to our common stock and ADSs

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

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

According to the privatization plans announced by the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, the KDIC will seek to dispose of up to all of its holdings of our common stock (and a minimum of a 30% equity stake) through a competitive bidding process open to domestic and foreign investors. The preliminary bidding process began on April 30, 2012 and will remain open until July 27, 2012. However, the sale process under such plans may be subject to change depending on market conditions and other factors. Furthermore, if it proceeds, our privatization may result in our merger with, or integration into, another financial institution. We do not know when, how or what percentage of our shares owned by the KDIC will be disposed of, or to whom such shares will be sold, or when, how and with whom we may be merged or integrated. As a result, we cannot predict the impact of any such transactions on us or our stock prices. Any future sales of our common stock or ADSs in the public market or otherwise by the KDIC, or any future merger or integration between us and another financial institution, or the possibility that such transactions may occur, could adversely affect the prevailing market prices of our common stock and ADSs.

Ownership of our common stock is restricted under Korean law.

Under the Financial Holding Company Act, a single stockholder, together with its affiliates, is generally prohibited from owning more than 10.0% of the outstanding shares of voting stock of a bank holding company such as us that controls nationwide banks, with the exception of certain stockholders that are non-financial business group companies, whose applicable limit is 9.0%. The Korean government and the KDIC are exempt from this limit, and investors may also exceed the 10.0% limit upon approval by the Financial Services Commission. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds the applicable limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank holding company or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank holding company and participate in the management of such company in the manner prescribed in the Enforcement Decree of the Financial Holding Company Act. If non-financial business group companies hold voting stock of a bank holding company in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of non-financial business group companies under the Financial Holding Company Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Restrictions on Ownership of a Financial Holding Company.

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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.

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

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

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

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

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

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI declined from 1,897.1 on December 31, 2007 to 938.8 on October 24, 2008. The KOSPI was 1,974.6 on April 20, 2012. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

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

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

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

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Other Risks

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

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

Item 4. INFORMATION ON THE COMPANY

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

Overview

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

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

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

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

History

Establishment of Woori Finance Holdings

In response to the financial and economic downturn beginning in late 1997, the Korean government announced and implemented a series of comprehensive policy packages to address structural weaknesses in the Korean economy and the financial sector. As part of these measures, on October 1, 1998, the KDIC purchased 95.0% of the outstanding shares of Hanvit Bank (which was at the time named the Commercial Bank of Korea) and 95.6% of the outstanding shares of Hanil Bank (which was subsequently merged into Hanvit Bank). These banks had suffered significant losses in 1997 and 1998. The Korean government took pre-emptive measures to ensure the survival of these and other banks as it believed that bank failures would have a substantial negative impact on the Korean economy.

Despite the measures implemented by the government, however, the predecessor operations of substantially all of our subsidiaries recorded significant losses in 1999 and 2000, primarily as a result of high levels of non-performing credits and loan loss provisioning. Based on subsequent audits conducted by the Financial Supervisory Service of a number of Korean commercial and merchant banks, the Financial

Services Commission announced in April 2000 that certain financial institutions had a high risk of insolvency and that substantial remedial measures were required.

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Commercial Banking Operations. The Korean government, through the Financial Services Commission, decided in December 2000 to write down the capital of each of Hanvit Bank (now Woori Bank), Kyongnam Bank, Kwangju Bank and Peace Bank of Korea (which was renamed Woori Credit Card and eventually merged with Woori Bank) to zero. It accomplished this by having the Financial Services Commission issue a capital reduction order with respect to these banks pursuant to its regulatory authority. The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC. 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).

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. In January 2001, Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank agreed in principle to consolidate and become subsidiaries of a new financial holding company. In July 2001, each entity entered into a memorandum of understanding with us, and we entered into a separate memorandum of understanding with the KDIC. These memoranda of understanding along with those entered with between our subsidiaries and the KDIC, which are described in more detail below, established the basis for the relationships among us, our subsidiaries and the KDIC. These memoranda set forth, among other things, financial targets and restructuring objectives that we and our subsidiaries were expected to satisfy in order to create a fully integrated financial services provider and to enable the KDIC to recover the public funds used to recapitalize our subsidiaries. On March 27, 2001, the KDIC transferred all of its shares in each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank to our company in exchange for our newly issued shares. Accordingly, we became the sole owner of those subsidiaries. We subsequently listed our shares on the KRX KOSPI Market on June 24, 2002.

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

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

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

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

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

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

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

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

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

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

Our subsidiaries entered into a new two-year business normalization plan with the KDIC in March 2009. In February and October 2010 and February 2011, the KDIC imposed institutional warnings on Woori Bank in connection with its failure to meet its financial targets with respect to operating income per employee as of September 30, 2009 and return on assets and non-performing loan ratio as of June 30 and September 30, 2010, respectively. In October 2010, KDIC imposed an institutional warning on Kyongnam Bank, as well as reprimands and warnings on 10 current and former executive officers of Kyongnam Bank, in connection with certain fraudulent transactions ostensibly undertaken on behalf of Kyongnam Bank by certain employees and their potential impact on Kyongnam Bank. See Item 8A. Consolidated Statements and Other Financial Information Legal Proceedings Kyongnam Bank. In April 2011, the KDIC imposed another institutional warning on Woori Bank, as well as a warning on the former chief executive officer of Woori Bank, in connection with Woori Bank s failure to meet its financial targets with respect to its return on assets and non-performing loan ratio as of December 31, 2010. Each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new one-year business normalization plan with new restructuring measures and financial targets with the KDIC in March 2011, and each met all of its financial targets under the plan.

In March 2012, each of Woori Bank, Kyongnam Bank and Kwangju Bank entered into a new one-year business normalization plan with new restructuring measures and financial targets with the KDIC. See Recent Developments with the KDIC.

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

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

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

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

Pursuant to the terms of this memorandum of understanding, we entered into a new two-year business normalization plan with new restructuring measures and financial targets with the KDIC in April 2005. In addition to the new restructuring measures and financial targets, the plan primarily dealt with ways to increase labor efficiency and to set up a comprehensive financial network for increased synergy among the group members and strengthening our incentive-based management system. We met all of our financial targets under the plan. We entered into a new two-year business normalization plan with the KDIC in April 2007. As a result of deteriorating economic and financial market conditions in Korea and globally, we failed to meet our return on assets target, our expense-to-revenue ratio target and our operating income per employee target as of December 31, 2008. In September 2009, the KDIC imposed an institutional warning on us in connection with our failure to meet such financial targets. We entered into another business normalization plan with the KDIC in March 2009. In March 2010, three of the financial targets for 2010 under such business normalization plan, which were the expense-to-revenue ratio, operating income per employee and holding company expense ratio, were adjusted by the KDIC. In April 2011, the KDIC imposed another institutional warning on us in connection with our failure to meet our financial targets with respect to our non-performing loan ratio as of December 31, 2010. In March 2011, we entered into a new one-year business normalization plan with new restructuring measures and financial targets with the KDIC, under which we met all of our financial targets. In March 2012, we entered into a new one-year business normalization plan with new restructuring measures and financial targets with the KDIC. See Recent Developments with the KDIC.

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

- cooperating with us to develop an integrated management and support system for us to oversee the operations of our subsidiaries;

- disposing of redundant branches and certain subsidiaries; and

- cooperating with us to consolidate our risk management operations and information technology systems, establish an information technology subsidiary, consolidate our credit card business, dispose of non-performing assets and establish our asset management subsidiary.

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

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

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

The specified financial targets for 2012 that are to be met by Woori Bank, Kyongnam Bank and Kwangju Bank are identical to those imposed by the KDIC on those subsidiaries.

Recent Developments with the KDIC. In March 2012, we and Woori Bank, Kyongnam Bank and Kwangju Bank each entered into a new one-year business normalization plan with the KDIC that included new restructuring measures and financial targets. In addition, the plan primarily dealt with ways to increase labor and cost efficiency, strengthen our risk management system, improve our asset quality, improve our profitability through increased synergy among the group members and strengthen our revenue base. The other terms of the previously agreed memoranda of understanding remain unchanged.

Our one-year business normalization plan sets forth six financial targets for fiscal year 2012 that we are required to meet, with semi-annual targets being set internally by us in accordance with the year-end targets. Our targets for fiscal year 2012 are set forth in the following table:

	As of or for the six months ending June 30, 2012		As of or for the year ending December 31, 2012	
Capital adequacy ratio[1]		10.0%		10.0%
Return on total assets[2]		0.15		0.46
Expense-to-revenue ratio[3]		57.9		48.1
Operating income per employee (Won millions)[4]	(Won)	290	(Won)	320
Non-performing loan ratio[5]		2.0%		1.2%
Holding company expense ratio[6]		0.9		0.6

(1) For a description of how the capital adequacy ratio is calculated, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy.
(2) Represents the ratio of net income to total assets.
(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income (i) before subtracting impairment loss on credit losses and general and administrative expenses and (ii) after subtracting (a) gain (loss) on valuation and disposal of equity investment securities and (b) income from Won-denominated loans with respect to the amount of such loans that exceeds the amount of Won-denominated deposits.
(4) Represents the ratio of adjusted operating income to total number of full-time employees.
(5) Represents the ratio of total credits classified as substandard or below to total credits, in each case, net of provisions.
(6) Represents the ratio of the holding company s expenses to adjusted operating income of its subsidiaries.

Each of Woori Bank, Kyongnam Bank and Kwangju Bank also submitted similar one-year business normalization plans that contain annual and quarterly financial targets 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 year so long as the KDIC remains our largest shareholder.

Reorganization and Integration Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

Furthermore,

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

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

- In October and December 2004, we acquired an aggregate 27.3% voting interest in LGIS. In March 2005, we merged Woori Securities into LGIS and renamed the surviving entity Woori Investment & Securities, which became an equity method investee under U.S. GAAP. Currently, Woori Investment & Securities is accounted for as a consolidated subsidiary under IFRS.

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

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

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

In April 2008, we acquired a 51.0% interest in LIG Life Insurance. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. Aviva International Holdings Limited (through its wholly-owned subsidiary Aviva Asia Holdings Private Limited) and we collectively hold a 98.9% interest in LIG Life Insurance, which was subsequently renamed Woori Aviva Life Insurance. Under IFRS, we account for Woori Aviva Life Insurance as part of our investments in jointly controlled entities and associates.

In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly-owned consolidated subsidiary, Woori FG Savings Bank Co., Ltd., which was established in connection with such transaction.

In September 2011, we tentatively announced our plan to spin off the credit card business of Woori Bank, which has not yet been implemented.

In October 2011, we acquired all of the outstanding common stock of Kwangju Bank and Kyongnam Bank that we did not previously own by exchanging shares of our own common stock for such shares, pursuant to which Kwangju Bank and Kyongnam Bank became our wholly-owned subsidiaries.

In addition, we have implemented a group-wide, standardized risk management system (except with respect to operational risk), including the standardization of the credit risk management systems of our subsidiaries which was completed in 2007. With respect to credit risk management systems, we completed implementing standardized credit risk management systems based on Woori Bank s system in all of our banking subsidiaries in 2007. With respect to operational risk management systems, we completed implementation of various aspects of the operational risk management system (not including the business risk management system) at Kyongnam Bank, Kwangju Bank and Woori Finance Information System (which changed its name to Woori FIS in May 2011) in 2006, completed the implementation of such aspects of the operational risk management system at Woori Investment & Securities in 2008, and also implemented an advanced measurement approach for operational risk at Woori Bank in June 2009.

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

We are Korea s first financial holding company, and our operations include one of the largest commercial banks in Korea, in terms of total assets (including loans). Our subsidiaries collectively engage in a broad range of businesses, including commercial banking, credit cards, capital markets activities, international banking, asset management and bancassurance. We provide a wide range of products and services to our customers, which mainly comprise individuals and small- and medium-sized enterprises, as well as some of Korea s largest corporations. As of December 31, 2011, we had consolidated total assets of (Won)313 trillion, consolidated total deposits of (Won)196 trillion and consolidated total equity of (Won)22 trillion.

We were established as a financial holding company in March 2001, to consolidate the Korean government s interest in a number of distressed financial institutions in the wake of the financial crisis in Korea in the late 1990s. Since our establishment, we have succeeded in restructuring our operations by: securing a solid capital base for our banking subsidiaries; improving the quality of our exposure to and our relationships in the large corporate sector; refocusing our lending activities on individual and small- and medium-sized enterprise customers to take advantage of our network of approximately 1,245 branches nationwide; expanding our activities in the areas of credit cards, full service brokerage, asset management and bancassurance for our over 21 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.

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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 Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and in respect of which we entered into a joint venture agreement with Aviva International Holdings Limited, is accounted for as part of our investments in jointly controlled entities and associates under IFRS. We currently hold a 51.6% interest in Woori Aviva Life Insurance.

(2) In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly owned subsidiary Woori FG Savings Bank, which was established in connection with such transaction.

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

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

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

Strong and long standing relationships with corporate customers. Historically the operations of Woori Bank, our largest subsidiary, concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea s leading corporate groups, and we are the main creditor bank to 13 of the 34 largest Korean corporate borrowers. Further enhancing our corporate loan portfolio is our ability to lend to small- and medium-sized enterprise customers. As of December 31, 2011, we had approximately 225,800 small- and medium-sized enterprise borrowers.

Large and loyal retail customer base. With respect to our consumer banking operations, we have one of the largest deposit bases of any Korean commercial bank, and over 21 million retail customers, representing about half of the Korean adult population. Of these customers, more than half are active customers, meaning that they have an account with us with a positive balance or have transacted business with us at least once during the last six months.

Extensive distribution and marketing network. We serve our customers primarily through one of the largest banking networks in Korea, comprising approximately 1,245 branches and over 8,900 ATMs and cash dispensers. Through Woori Bank, we also operate 11 dedicated corporate banking centers and approximately 97 general managers for our large corporate customers and approximately 1,544 relationship managers stationed at 730 branches for our small- and medium-sized enterprise customers. In addition, we have Internet and mobile banking platforms to enhance customer convenience, reduce service delivery costs and allow our branch staff to focus on marketing and sales.

Strong capital base. As of December 31, 2011, our consolidated equity totaled (Won)22 trillion, and the combined capital adequacy ratio of our banking subsidiaries was 13.7%. Our management team at the holding company carefully coordinates the capital and dividend plans of each of our subsidiaries and for the consolidated group to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

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

Strategy

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

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. Since 2002, we have taken various measures, including entering into joint venture arrangements with several financial institutions, to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans has decreased significantly over the past decade and was 1.8% as of December 31, 2011.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized group-wide risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies across all subsidiaries and implemented an advanced credit evaluation system called CREPIA at Woori Bank. Kyongnam Bank and Kwangju Bank currently use standardized credit evaluation systems based on the CREPIA system. In connection with the implementation of Basel II in Korea in January 2008, we completed upgrades to our credit risk management systems in 2007, including credit evaluation models, collateral management systems and non-performing credit management systems, as well as the implementation of a credit risk measurement engine to quantify our credit risk exposures. Furthermore, following the global financial crisis, we undertook a group-wide review of our credit risk management procedures with outside consultants in 2009, as well as undertaking further group-wide reviews of our risk management infrastructure and systems in 2009 and 2010, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems.

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

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

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

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

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

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

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

We believe that the continuing integration of our accounting, information technology and other back-office systems will allow us to further eliminate redundant functions and equipment and reducing our long-term expense. In addition, we are continuing our efforts to reduce procurement costs by coordinating and combining procurement activities among our subsidiaries. We believe the completion of the above integration, centralization and procurement projects together with our effort to encourage migration of our mass market customers to low-cost alternative channels will reduce our costs and enhance our operating efficiencies. We are also continuing our efforts to maximize synergies among our subsidiaries, including through increased cross-selling and marketing of a broad range of financial products and services through our financial products department stores located in Seoul.

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

Corporate Banking

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

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

	As of December 31,			
	2010		2011	
	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)			
Loans[1] :				
Small- and medium-sized enterprise[2]	(Won) 81,618	40.6%	(Won) 83,624	39.4%
Large corporate[3]	31,073	15.4	33,672	15.8
Others[4]	17,430	8.7	17,690	8.3
Total	(Won) 130,121	64.7%	(Won) 134,986	63.5%
Deposits:				
Small- and medium-sized enterprise	(Won) 27,351	14.8%	(Won) 30,977	15.8%
Large corporate	61,598	33.2	61,561	31.4
Total	(Won) 88,949	48.0%	(Won) 92,538	47.2%
Number of borrowers:				
Small- and medium-sized enterprise	257,143		225,791	
Large corporate	2,603		2,739	

(1) Not including due from banks, other receivables and outstanding credit card balances, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.

(2) Loans to small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations (and including project finance loans to such enterprises). See Small and Medium-Sized Enterprise Banking.

(3) Loans to companies that are not small- and medium-size enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations, and typically including companies that have assets of (Won)10 billion or more and are therefore subject to external audit under the External Audit Act of Korea. See Large Corporate Banking.

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

Corporate loans we provide consist principally of the following:

working capital loans, which are loans used for general working capital purposes, typically with a maturity of one year or less, including notes discounted and trade finance; and *facilities loans*, which are loans to finance the purchase of materials, equipment and facilities, typically with a maturity of three years or more.

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

Small- and Medium-Sized Enterprise Banking

We use the term small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations. Under the Small and Medium Industry Basic Act of Korea and related regulations, in order to qualify as a small- and medium-sized enterprise, (i) the number of regular employees of the enterprise must be less than 1,000, (ii) the enterprise s total assets at the end of the immediately preceding fiscal year must be less than (Won)500 billion, (iii) the enterprise s paid-in capital at the end of the immediately preceding fiscal year must be less than (Won)100 billion, (iv) the enterprise s average sales revenues for the most recent three fiscal years must be less than (Won)150 billion, (v) the enterprise must meet the standards prescribed by the Presidential Decree applicable to the type of its main business and (vi) the enterprise must meet the standards of management independence from ownership as prescribed by the Presidential Decree, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. Furthermore, non-profit enterprises with a number of regular employees not exceeding 300 and the sales revenue of less than (Won)30 billion that satisfy certain requirements prescribed in the Small and Medium Industry Basic Act may qualify as a small- and medium-sized enterprise. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As of December 31, 2011, 39.4% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 18.0% were extended to borrowers in the retail and wholesale industry and 7.2% were extended to borrowers in the construction industry.

We service our small- and medium-sized enterprise customers primarily through Woori Bank s network of branches and small- and medium-sized enterprise relationship managers, as well as through the branches and headquarters of Kyongnam Bank and Kwangju Bank. As of December 31, 2011, Woori Bank had stationed one or more relationship managers at 730 branches, of which 370 were located in the Seoul metropolitan area. The relationship managers specialize in servicing the banking needs of small- and medium-sized enterprise customers and concentrate their marketing efforts on developing new customers in this segment. As of December 31, 2011, Woori Bank had a total of 1,544 small- and medium-sized enterprise relationship managers stationed at its branches.

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

Lending Activities. We provide both working capital loans and facilities loans to our small- and medium-sized enterprise customers. As of December 31, 2011, working capital loans and facilities loans accounted for 66.6% and 24.7%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2011, we had approximately 225,800 small- and medium-sized enterprise borrowers.

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As of December 31, 2011, secured loans and loans guaranteed by a third party accounted for 60.7% and 15.8%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2011, approximately 75.6% of the secured loans were secured by real estate and 4.5% 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 year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for 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 CREPIA system. Woori Bank uses its CREPIA system to manage its lending activities, and inputs data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and updates such information periodically to reflect changes in such information. At Kyongnam Bank and Kwangju Bank, we began to determine lending rates using similar credit evaluation systems from January 2008. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2011, approximately 80.4% of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

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

In terms of our outstanding loan balance, as of December 31, 2011, 50.2% of our large corporate loans were extended to borrowers in the manufacturing industry, 13.5% were extended to borrowers in the finance and insurance industry and 9.5% were extended to borrowers in the construction industry.

We service our large corporate customers primarily through Woori Bank s network of dedicated corporate banking centers and general managers. Woori Bank operates 11 dedicated corporate banking centers, 10 of which are located in the Seoul metropolitan area. Each center is staffed with several general managers and headed by a senior general manager. Depending on the center, each such 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, 2011, Woori Bank had a total of 97 general managers who focus on marketing to and managing the accounts of large corporate customers.

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

Lending Activities. We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2011, working capital loans and facilities loans accounted for 35.2% and 22.8%, 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, 2011, secured loans and loans guaranteed by a third party accounted for 19.0% and 6.9%, 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 provisions for credit 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, 2011, approximately 70.7% of the secured loans were secured by real estate and approximately 6.0% were secured by deposits. Working capital loans generally have a maturity of one year but may be extended on an annual basis for an aggregate term of three to five years. Facilities loans have a maximum maturity of ten years.

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

Pricing. We determine the pricing of our loans to large corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Pricing. As of December 31, 2011, approximately half of these loans had interest rates that varied with reference to current market interest rates.

Consumer Banking

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

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

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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,			
	2010		2011	
	Amount[(1)]	% of Total Loans[(2)]	Amount[(1)]	% of Total Loans[(2)]
	(in billions of Won, except percentage)			
General purpose household loans	(Won) 33,737	16.8%	(Won) 32,836	15.5%
Mortgage loans	6,375	3.2	12,138	5.7
Home equity loans	26,645	13.2	27,940	13.1
Total	(Won) 66,757	33.2%	(Won) 72,914	34.3%

(1) Not including outstanding credit card balances, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.

(2) Total loans do not include due from banks and other receivables and are before the deduction of provisions for credit losses and present value discount and the reflection of deferred origination costs.

Our consumer loans consist of:

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

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

For secured loans, including mortgage and home equity loans, we generally lend up to 60% of the collateral value (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 60% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate for such secured consumer loans (which principally consists of residential properties), we generally use the fair value of the collateral as appraised by Korea Investors Service which is collated in our CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank to manage lending activities and gather related information. We generally revalue collateral on a periodic basis. As of December 31, 2011, the revaluation period was every year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange.

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2011, approximately (Won)18,963 billion, or 58.0% 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, 2011, this amount was approximately (Won)3 billion.

Pricing. The interest rates on our general purpose household loans are either a periodic floating rate (which is based on a base rate determined for three-month, six-month or twelve-month periods derived internally, which reflects our internal cost of funding, further adjusted to account for the borrower s credit score and our opportunity cost) or a fixed rate that reflects those same costs and expenses, but taking into account interest rate risks. In 2010, we began using the Cost of Fund Index (or COFIX) benchmark rate, as announced by the Korea Federation of Banks, as the base rate for our general purpose household loans with periodic floating rates in place of the benchmark certificate of deposit rate that we had traditionally used for such purpose.

Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. At Woori Bank, lending rates are generally determined by our CREPIA system, and we began to determine lending rates at Kyongnam Bank and Kwangju Bank using similar credit evaluation systems from January 2008. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2011, approximately 82.8% 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 typically 35 years for Woori Bank and Kwangju Bank and 30 years for Kyongnam Bank. Most of our mortgage and home equity loans have an interest-only payment period of five years or less. With respect to these loans, we determine the eligibility of borrowers based on the borrower s personal information, transaction history and credit history using Woori Bank s CREPIA system and similar systems used by Kyongnam Bank and Kwangju Bank. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund. We receive fee income related to the origination of loans, including fees relating to loan processing and collateral evaluation.

As of December 31, 2011, approximately 93.4% of our mortgage and home equity loans were secured by residential or other property, 5.2% of our mortgage and home equity loans were guaranteed by Korean government-related housing funds and 4.9% 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). One reason that a portion of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2011, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of (Won)1,972 billion. For the year ended December 31, 2011, the average initial loan-to-value ratio of our mortgage loans and home equity loans was approximately 54.4% and 50.3%, respectively, compared to 53.4% and 50.8% for the year ended December 31, 2010. The average loan-to-value ratio of our mortgage loans and home equity loans as of December 31, 2011 was approximately 49.1% and 48.2%, respectively, compared to 48.0% and 48.4% as of December 31, 2010.

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, 2011, approximately 89.2% of our outstanding mortgage and home equity loans had floating interest rates.

Private Banking Operations

Our private banking operations within Woori Bank, Kyongnam Bank and Kwangju Bank aim to service our high net worth and mass affluent retail customers who individually maintain a deposit balance of at least (Won)50 million with us. As of December 31, 2011, we had over 140,000 customers who qualified for private banking services, representing 0.6% of our total retail customer base. Of our total retail customer deposits of (Won)76,360 billion as of December 31, 2011, high net worth and mass affluent customers accounted for 43.7%.

Through our private bankers, we provide financial and real estate advisory services to our high net worth and mass affluent customers. We also market differentiated investment and banking products and services to these segments, including beneficiary certificates, overseas mutual fund products, specialized bank accounts and credit cards. In addition, we have developed a customer loyalty program for our private banking customers that provides preferential rate and fee benefits and awards. We have also segmented our private banking operations by introducing exclusive private client services for high net worth customers who individually maintain a deposit balance of at least (Won)100 million in the case of Woori Bank and (Won)50 million in the case of Kyongnam Bank and Kwangju Bank. We believe that our private banking operations will allow us to increase our revenues from our existing high net worth and mass affluent customers, as well as attract new customers in these segments.

Woori Bank has 359 branches that offer private banking services. These branches are staffed by 356 private bankers and almost all of the branches are located in metropolitan areas, including Seoul. Kyongnam Bank and Kwangju Bank operate one and two dedicated private banking centers, respectively. Both banks also offer private banking services through a select number of branches. As of December 31, 2011, 66 private bankers were dispersed over 65 Kyongnam Bank branches and 14 private bankers were dispersed over 14 Kwangju Bank branches that provided private banking services.

We operate four financial products department stores in Seoul, which function as regular branches and through which we offer and market a variety of financial products and services, including credit cards, foreign currency products, bonds, stocks and insurance policies. These department stores employ specialists in the areas of tax, real estate and asset management, and are dedicated to offering comprehensive wealth management consulting services for high net worth customers. In addition, Woori Bank operates an advisory center in Seoul for its private banking clients, which employs 17 specialists advising on matters of law, tax, real estate, risk assessment and investments.

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Deposit-Taking Activities

As of December 31, 2011, we were one of the largest deposit holders 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)60,948 billion and (Won)66,285 billion as of December 31, 2010 and 2011, respectively, which constituted 32.9% and 33.8%, 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:

- *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;

- *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;

- *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 six years; and

- *certificates of deposit*, the maturities of which range from 30 days to five years, with a required minimum deposit of (Won)5 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, 2011:

Demand Deposits	Time Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
24.9%	64.2%	9.9%	0.1%	0.9%

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

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

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

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

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

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

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of (Won)50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a quarterly premium of 0.02% of our average deposits and a quarterly special contribution of 0.025% of our average deposits, in each case for the relevant quarter. For the year ended December 31, 2011, our banking subsidiaries paid an aggregate of (Won)246 billion of such premiums and contributions.

Branch Network and Other Distribution Channels

Our commercial banking subsidiaries had a total of 1,245 branches in Korea as of December 31, 2011, which on a combined basis was one of the most extensive networks of branches among Korean commercial banks. Recently, demand in Korea for mutual funds and other asset management products as well as bancassurance products has been rising. These products require an extensive sales force and customer interaction to sell, further emphasizing the need for a large branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct a significant portion of their financial 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, 2011:

	Woori Bank		Kyongnam Bank		Kwangju Bank		Total	
	Number	% of Total	Number	% of Total	Number	% of Total	Number	% of Total
Area								
Seoul	454	48.2%	3	1.9%	6	4.1%	463	37.2%
Six largest cities (other than Seoul)	163	17.3%	52	33.3%	93	63.3%	308	24.7%
Other	325	34.5%	101	64.7%	48	32.7%	474	38.1%
Total	942	100.0%	156	100.0%	147	100.0%	1,245	100.0%

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

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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, 2011:

	ATMs	Cash Dispensers
Woori Bank	6,570	484
Kyongnam Bank	423	648
Kwangju Bank	481	335
Total	7,474	1,467

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

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Woori Bank

	For the year ended December 31,	
	2010	2011
ATMs[1]:		
Number of transactions (millions)	429	433
Fee income (billions of Won)	(Won) 46	(Won) 55
Telephone banking:		
Number of users	6,103,894	6,265,585
Number of transactions (millions)	166	154
Fee income (billions of Won)	(Won) 4	(Won) 4
Internet banking:		
Number of users	9,408,592	10,284,922
Number of transactions (millions)	3,945	4,550
Fee income (billions of Won)	(Won) 107	(Won) 117

Kyongnam Bank

	For the year ended December 31,	
	2010	2011
ATMs[1]:		
Number of transactions (millions)	70	69
Fee income (billions of Won)	(Won) 8	(Won) 8
Telephone banking:		
Number of users	911,379	937,077
Number of transactions (millions)	27	27
Fee income (billions of Won)	(Won) 1	(Won) 1
Internet banking:		
Number of users	806,635	936,224
Number of transactions (millions)	137	144
Fee income (billions of Won)	(Won) 1	(Won) 1

Kwangju Bank

	For the year ended December 31,	
	2010	2011
ATMs[1]:		
Number of transactions (millions)	91	89
Fee income (billions of Won)	(Won) 6	(Won) 6
Telephone banking:		
Number of users	683,170	715,431
Number of transactions (millions)	26	30
Fee income (billions of Won)	(Won) 1	(Won) 1
Internet banking:		
Number of users	714,426	770,232
Number of transactions (millions)	142	145
Fee income (billions of Won)	(Won) 1	(Won) 1

(1) Includes cash dispensers.

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

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

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

We also provide mobile banking services to our customers, which is available to all our Internet-registered users. These services allow our customers to complete selected banking transactions through major Korean telecommunications networks using their cellular phones or other mobile devices. In April 2010, our banking subsidiaries launched new smart banking services which enable users of so-called smart phones to access a broad range of banking and credit card services through their mobile phones. Our electronic bill presentation and payment system provides our customers with the ability to pay taxes, maintenance fees and other public fees electronically.

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

Credit Cards

We offer credit card products and services to consumers and corporate customers in Korea. In March 2004, we merged our credit card subsidiary, Woori Credit Card, with Woori Bank. As of December 31, 2011, Woori Bank s market share based on transaction volume was approximately 7.3%, which ranked Woori Bank as the sixth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card.

Our credit card operations benefit from our ownership of a 9.6% equity stake in BC Card. BC Card is co-owned by KT Capital, which is a financial subsidiary of KT Corporation, one of Korea s largest telecommunications companies, as well as a private equity fund and other Korean financial institutions, and operates the largest merchant payment network in Korea as measured by transaction volume. This ownership stake allows us to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for our Woori Bank credit card and Kyongnam Bank BC Card operations. In October 2011, we sold a 20% equity stake which we previously owned in BC Card to KT Capital for a price of (Won)137 billion.

Products and Services

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

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

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

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

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

- cash advance services from ATMs and bank branches; and

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

Unlike in the United States and many other countries, where most credit cards are revolving cards that allow outstanding balances to be rolled over from month to month so long as a required minimum percentage is repaid, cardholders in Korea are generally required to pay for their non-installment purchases as well as cash advances within approximately 15 to 58 days of purchase or advance, depending on their payment cycle.

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

	As of or for the year ended December 31,					
	2010			2011		
	Woori Card(1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card	Woori Card(1)	Kyongnam Bank BC Card	Kwangju Bank Visa Card
	(in billions of Won, unless indicated otherwise)					
Number of credit card holders (at year end) (thousands of holders)						
General accounts	10,707	986	803	11,374	1,047	845
Corporate accounts	342	54	74	393	64	87
Total	11,049	1,040	877	11,768	1,111	932
Active ratio(2)	57.00%	46.96%	55.87%	56.97%	46.35%	54.25%
Credit card interest and fees						
Installment and cash advance interest	(Won) 276	(Won) 16	(Won) 3	(Won) 261	(Won) 11	(Won) 3
Annual membership fees	10	1		11	1	
Merchant fees	618	42	44	630	41	45
Other fees	117	5	2	129	5	2
Total	(Won) 1,021	(Won) 64	(Won) 49	(Won) 1,031	(Won) 58	(Won) 50
Charge volumes						
General purchase	(Won) 25,697	(Won) 1,785	(Won) 1,619	(Won) 29,429	(Won) 2,009	(Won) 1,909
Installment purchase	4,892	435	227	4,786	354	243
Cash advance	6,084	212	142	5,936	198	124
Card loan	568	7		696	12	3
Total	(Won) 37,241	(Won) 2,439	1,988	(Won) 40,847	(Won) 2,573	(Won) 2,279
Outstanding balances (at year end)						
General purchase	(Won) 1,827	(Won) 138	(Won) 107	(Won) 2,019	(Won) 117	(Won) 119
Installment purchase	969	86	36	1,014	72	45
Cash advance	790	28	13	776	27	12
Card loan	358	5		383	6	2
Total	(Won) 3,944	(Won) 257	(Won) 156	(Won) 4,192	(Won) 222	(Won) 178
Average outstanding balances						
General purchase	(Won) 1,906	(Won) 153	(Won) 112	(Won) 2,091	(Won) 145	(Won) 129
Installment purchase	1,114	114	48	1,062	76	48
Cash advance	827	29	15	805	27	13
Card loan	285	5		385	5	1
Total	(Won) 4,132	(Won) 301	(Won) 175	(Won) 4,343	(Won) 253	(Won) 191
Delinquency ratios(3)						
Less than 1 month	2.46	0.43	0.75	3.34	0.60	0.75

From 1 month to 3 months		1.20		0.67		0.61		1.10		0.69		0.57
From 3 months to 6 months		1.14		0.59		0.29		1.05		0.79		0.28
Over 6 months		0.12		0.41		0.24		0.03		0.42		0.13
Total		4.92%		2.10%		1.89%		5.51%		2.50%		1.72%
Non-performing loan ratio(4)		1.16%		1.26%		0.95%		1.41%		2.37%		0.65%
Charge-offs (gross)	(Won)	131	(Won)	5	(Won)	4	(Won)	133	(Won)	5	(Won)	3
Recoveries		61		3		1		31		1		0
Net charge-offs	(Won)	70	(Won)	2	(Won)	3	(Won)	102	(Won)	4	(Won)	3
Gross charge-off ratio(5)		3.17%		1.66%		2.29%		3.07%		2.08%		1.69%
Net charge-off ratio(6)		1.48%		1.00%		0.57%		0.72%		0.59%		0.11%

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

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

(3) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by 30 days or more accounted for 3.1% of our credit card receivables as of December 31, 2011.

(4) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2010 and 2011:

	As of December 31,	
	2010	2011
	(in billions of Won)	
Restructured loans	(Won) 34	(Won) 43

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

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

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

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

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of (Won)1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a down payment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2011, the total amount of our restructured loans was (Won)51 billion (which also included revolving loans and installment loans). Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances.

Payments and Charges

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

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

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

No interest is charged on lump-sum purchases that are paid in full by the monthly payment date. For installment purchases, we charge a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, we currently apply an interest rate between approximately 9.9% and 19.5% per annum as determined by the cardholder s application system score. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval Credit Card Approval Process and Credit Review and Monitoring Credit Card Review and Monitoring.

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 6.0% to 28.8% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a minimum commission of (Won)600 and a maximum of (Won)1,200 per withdrawal.

We also generally charge a basic annual membership fee of (Won)1,000 to (Won)15,000 for regular and gold cards and (Won)10,000 to (Won)1,000,000 for platinum cards. The determination of the annual fee is based on various factors including the type of card, and whether affiliation options are selected by the cardholder. For certain cards, such as the Dadungyi Happiness Card and Woori Children Love Card, we will waive membership fees if customers charge above a certain amount.

Commencing in July 2006, we outsourced the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2011, we charged merchants an average of 2.05% of their respective total transaction amounts, in the case of Woori Bank, and 2.20% and 1.95%, respectively, in the case of Kyongnam Bank and Kwangju Bank. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

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

We currently own a 37.9% voting interest in Woori Investment & Securities, which is a consolidated subsidiary under IFRS and conducts a significant portion of our capital markets activities. As of December 31, 2011, Woori Investment & Securities had consolidated total assets of (Won)21,535 billion, consolidated total liabilities of (Won)17,862 billion and consolidated total owners equity of (Won)3,673 billion. For the year ended December 31, 2011, Woori Investment & Securities generated consolidated revenues of (Won)3,911 billion and consolidated net income of (Won)198 billion.

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Securities Investment and Trading

Through Woori Bank and Woori Investment & Securities and, to a lesser extent, Kyongnam Bank and Kwangju Bank, we invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2011, our investment portfolio, which consists of held-to-maturity financial assets and available-for-sale financial assets, and our trading portfolio, which consists of financial assets held for trading and financial assets designated at fair value through profit or loss, had a combined total book value of (Won)60,590 billion and represented 19.4% of our total assets.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, including the KDIC, local governments or government-invested enterprises, and debt securities issued by financial institutions. As of December 31, 2011, we held debt securities with a total book value of (Won)48,114 billion, of which:

- held-to-maturity debt securities accounted for (Won)20,036 billion, or 41.6%;
- available-for-sale debt securities accounted for (Won)12,912 billion, or 26.8%;
- debt securities held for trading accounted for (Won)14,756 billion, or 30.7%; and
- debt securities designated at fair value through profit or loss accounted for (Won)410 billion, or 0.9%.

Of these amounts, as of December 31, 2011, debt securities issued by the Korean government and government agencies amounted to (Won)7,235 billion, or 36.1%, of our held-to-maturity debt securities, (Won)2,787 billion, or 21.6%, of our available-for-sale debt securities, and (Won)1,194 billion, or 8.1%, of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market. As of December 31, 2011:

- equity securities in our available-for-sale portfolio had a book value of (Won)2,752 billion, or 14.0%, of our available-for-sale securities portfolio;
- equity securities held for trading accounted for (Won)608 billion, or 3.1% of our held-for-trading securities portfolio; and
- equity securities designated at fair value through profit or loss accounted for (Won)12 billion, or 1.1% of our financial assets designated at fair value through profit or loss portfolio.

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

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The following tables show, as of the dates indicated, the gross unrealized gains and losses within our investment portfolio and the amortized cost and fair value of the portfolio by type of investment financial asset:

	As of December 31, 2010			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	(Won) 2,684	(Won) 37	(Won) (1)	(Won) 2,720
Financial institutions	5,877	21	(1)	5,897
Corporate	2,671	20	(1)	2,690
Asset-backed securities	737	12	0	749
Foreign currency bonds	275	10	(1)	284
Subtotal	12,244	100	(4)	12,340
Equity securities	2,014	1,311	(89)	3,236
Beneficiary certificates[1]	5,073	137	(14)	5,196
Others	1,223	5	(2)	1,226
Total available-for-sale financial assets	(Won) 20,554	(Won) 1,553	(Won) (109)	(Won) 21,998
Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	(Won) 6,348	(Won) 135	(Won) (6)	(Won) 6,477
Financial institutions	7,832	57	0	7,889
Corporate	5,491	79	(3)	5,567
Foreign currency bonds	143			143
Securities loaned	71	1	0	72
Total held-to-maturity financial assets	(Won) 19,885	(Won) 272	(Won) (9)	(Won) 20,148

	As of December 31, 2011			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	(Won) 2,754	(Won) 34	(Won) (1)	(Won) 2,787
Financial institutions	5,199	12	(1)	5,210
Corporate	4,151	33	(1)	4,183
Asset-backed securities	610	0	(11)	599
Foreign currency bonds	133	0	0	133
Subtotal	12,847	79	(14)	12,912
Equity securities	1,860	917	(25)	2,752
Beneficiary certificates[1]	3,720	74	(5)	3,789
Others	219	0	0	219
Total available-for-sale financial assets	(Won) 18,646	(Won) 1,070	(Won) (44)	(Won) 19,672

Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	(Won) 7,235	(Won) 198	(Won) (1)	(Won) 7,432
Financial institutions	5,859	22	(1)	5,880
Corporate	6,828	74	(4)	6,898
Foreign currency bonds	103			103
Securities loaned	11	0	0	11
Total held-to-maturity financial assets	(Won) 20,036	(Won) 294	(Won) (6)	(Won) 20,324

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

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

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers, primarily through Woori Bank. Our trading volume was (Won)287,825 billion in 2010 and (Won)265,381 billion in 2011, respectively. Our aggregate net trading revenue (loss) from derivatives for the years ended December 31, 2010 and 2011 was (Won)82 billion and (Won)(160) billion, respectively.

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

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

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

Our derivatives operations focus on addressing the needs of our corporate clients to hedge their risk exposure and on hedging our risk exposure resulting from such client contracts. We also engage in derivatives trading activities to hedge the interest rate and foreign currency risk exposure that arises from our own assets and liability positions. In addition, we engage in proprietary trading of derivatives, such as index options and futures within our regulated open position limits, and arbitrage through Woori Investment & Securities, for the purpose of generating capital gains.

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

	As of December 31,			
	2010		2011	
	Estimated Fair Value of	Estimated Fair Value of	Estimated Fair Value of	Estimated Fair Value of

	Assets	Liabilities	Assets	Liabilities
		(in billions of Won)		
Currency derivatives	(Won) 2,571	(Won) 1,845	(Won) 2,206	(Won) 1,690
Interest rate derivatives	1,350	1,518	1,553	1,671
Equity derivatives	195	247	96	517
Credit derivatives[(1)]	16	4	18	22
Commodity derivatives	30	36	28	26
Other derivatives				
Total	(Won) 4,162	(Won) 3,650	(Won) 3,901	(Won) 3,926

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

In August 2006, Woori Bank entered into an agreement with Macquarie Bank, an Australian investment bank, pursuant to which Macquarie Bank provides operational support and cooperation to Woori Bank in the area of commodity derivatives trading, in connection with Woori Bank s plans to develop its commodities derivatives business. Following a one-year extension, the agreement is effective until August 2012.

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

Asset Securitization Services

We are active in the Korean asset-backed securities market. Through Woori Bank and Woori Investment & Securities, we participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2011, we were involved in asset securitization transactions with an initial aggregate issue amount of (Won)4,876 billion and generated total fee income of approximately (Won)64 billion in connection with such transactions. The securities issued in asset securitization transactions are sold mainly to institutional investors buying through Korean securities firms.

Investment Banking

We engage in investment banking activities in Korea through Woori Bank and Woori Investment & Securities. Through Woori Investment & Securities, we underwrite equity and debt securities offerings in the Korean capital markets, either as lead manager or a member of an underwriting syndicate and provide mergers and acquisitions and financial advisory services. In 2011, Woori Investment & Securities generated investment banking revenue of approximately (Won)71 billion, consisting primarily of underwriting fee income from securities offerings. In addition, through Woori Bank, we provide project finance and financial advisory services, in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and mergers and acquisitions advisory services. In 2011, Woori Bank generated investment banking revenue of approximately (Won)76 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services. Through Woori Investment Asia Pte., a wholly-owned subsidiary of Woori Investment & Securities, we also engage in investment banking activities in Southeast Asia.

We believe that significant opportunities exist for us to leverage our existing base of large corporate and small- and medium-sized banking customers to cross-sell investment banking services. We intend to expand our investment banking operations to take advantage of these opportunities, with a view to increasing our fee income and further diversifying our revenue base.

Securities Brokerage

We provide securities brokerage services through Woori Investment & Securities. Our activities include brokerage services relating to stocks, futures, options and debt instruments (such as commercial paper). As of December 31, 2011, Woori Investment & Securities had 118 branches. We also provide securities brokerage services through the Internet and through our home trading system software platforms. In 2011, Woori Investment & Securities generated fee income of approximately (Won)396 billion through its securities brokerage activities.

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International Banking

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

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

	As of December 31,	
	2010	2011
	(in millions of US$)	
Total foreign currency assets	US$ 19,618	US$ 23,220
Foreign currency borrowings		
Call money	1,085	1,058
Long-term borrowings	6,995	7,657
Short-term borrowings	6,247	7,438
Total foreign currency borrowings	US$ 14,327	US$ 16,063

The table below sets forth the overseas subsidiaries and branches of Woori Bank in operation as of December 31, 2011.

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

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

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

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Woori America Bank currently operates 18 branches in New York, New Jersey, Maryland, Virginia, Pennsylvania and California and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US$939 million as of December 31, 2011 and net profit of US$2 million in 2011.

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

Asset Management

Trust Management Services

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

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

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

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

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

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

We receive fees for our trust management services that are generally based upon a percentage, ranging between 0.01% and 2.0%, of the net asset value of the assets under management. We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Fees that we received for our trust management services (including those fees related to property trust management services, described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to (Won)38 billion in 2010 and (Won)36 billion in 2011.

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

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The following table shows the balances of our money trusts by type as of the dates indicated. Under IFRS, we consolidate trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest, while we do not consolidate performance trusts on which we do not guarantee principal or interest or those trust accounts for which we guarantee only the repayment of the principal amount:

	As of December 31,	
	2010	2011
	(in billions of Won)	
Principal and interest guaranteed trusts	(Won) 1	(Won) 1
Principal guaranteed trusts	1,750	1,400
Performance trusts	8,635	11,985
Total	(Won) 10,386	(Won) 13,386

The trust assets we manage consist principally of investment securities and loans made from the trusts. The investment securities consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. As of December 31, 2011, our money trusts had invested in securities with an aggregate book value of (Won)3,736 billion, which accounted for approximately 27.9% of our money trust assets. Debt securities accounted for (Won)2,479 billion of this amount.

Our money trusts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust management companies. As of December 31, 2011, equity securities held by our money trusts amounted to (Won)601 billion, which accounted for approximately 4.5% of our money trust assets. Of this amount, less than (Won)1 billion was from money trusts over which we had investment discretion and the remainder was from specified money trusts.

Loans made by our money trusts are similar in type to the loans made by our banking operations. As of December 31, 2011, our money trusts had made loans in the aggregate principal amount of (Won)210 billion (excluding loans to our banking operations of (Won)2,157 billion), which accounted for approximately 1.6% of our money trust assets.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained in our trust accounts, followed by basic fees from that money trust and funds from our banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. No material payments of any such shortfall amounts were made in 2011.

Property Trusts. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we also offer property trust management services, where we manage non-cash assets in return for a fee. Non-cash assets include mostly receivables (including those securing asset-backed securities), real property and securities, but can also include movable property such as artwork. Under these arrangements, we render escrow or custodial services for the property in question and collect fees in return.

In 2011, our property trust fees generally ranged from 0.05% to 1.0% of total assets under management, depending on the type of trust account product. As of December 31, 2011, the balance of our property trusts totaled (Won)13,207 billion.

Under IFRS, property trusts are not consolidated within our financial statements.

Investment Trust Management

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

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

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

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hybrid funds, the assets of which include both fixed income and equity securities with no minimum requirement to hold either type of security, and which are classified as either fixed income- or equity-type hybrid funds depending on which type of securities constitute the majority of the assets held;

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

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

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

The following table shows the balances of our investment trusts by type as of the dates indicated. Under IFRS, we do not consolidate investment trusts due to the fact that the assets invested are not our assets but customer assets:

	As of December 31,	
	2010	**2011**
	(in billions of Won)	
Equity funds	(Won) 1,888	(Won) 1,907
Bond funds	2,116	1,994
Hybrid funds	477	320
Money market funds	5,355	5,802
Alternative investment funds	3,484	3,147
Total	(Won) 13,320	(Won) 13,170

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

Fees from our investment trust management services amounted to (Won)26 billion in 2010 and (Won)22 billion in 2011.

Although our current customer base consists mainly of institutional investors, we have been seeking to market our investment trust products to retail customers through our consumer banking network. We believe that significant opportunities exist for us to leverage our existing base of consumer banking customers to cross-sell our investment trust products. We intend to focus on the development of new products tailored to particular customer segments and the enhancement of sales and distribution capabilities through each of our marketing channels to meet our customers needs.

Trustee and Custodian Services Relating to Securities Investment Trusts

Through Woori Bank, we act as a trustee for approximately 1,159 securities investment trusts, mutual funds and other investment funds. We receive a fee for acting as a trustee and generally perform the following functions:

receiving payments made in respect of such securities;

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

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

For the year ended December 31, 2011, our fee income from such services was (Won)8 billion.

Other Businesses

Merchant Banking

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

- commercial paper discounting, which entails purchasing at a discount notes that are issued, endorsed or guaranteed by companies to supply them with short-term working capital;
- factoring financing, which entails purchasing at a discount trade receivables held by companies to supply them with capital;
- payment guarantees, which entail issuing guarantees in respect of notes in return for fees; and
- cash management account (CMA) services, which offer accounts into which the accountholder may freely deposit or withdraw funds and for which returns from an investment portfolio purchased with such deposited funds are distributed as interest.

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

Management of National Housing Fund

In April 2008, we were selected to be the lead manager of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2011, outstanding housing loans from the National Housing Fund amounted to approximately (Won)74 trillion, of which we originated approximately (Won)39 trillion. The activities of the National Housing Fund are funded primarily by the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, and by subscription savings deposits held at the National Housing Fund.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. We received total fees of approximately (Won)63 billion for managing the National Housing Fund in 2011.

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Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. Through Woori Bank, Kyongnam Bank and Kwangju Bank, we market a wide range of bancassurance products. In 2011, we generated fee income of approximately (Won)137 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. Woori Bank has entered into bancassurance marketing arrangements with 23 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Korea Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plans to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base. Woori Bank has also entered into bancassurance marketing arrangements with Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and currently hold a 51.6% interest.

Private Equity

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

We also engage in private equity fund activities through Woori Asset Management. In February 2012, Woori Asset Management established POSCO Woori EIG Global Fund, the size of which is approximately (Won)560 billion, as a limited partnership in which Woori Asset Management serves as a general partner.

Consumer Finance

We provide consumer finance services through Woori Financial Co., Ltd. We acquired a 51.4% stake in Woori Financial (formerly known as Hanmi Capital Co., Ltd.) in September 2007 and further acquired an additional 2.4% stake in September 2009 following our exercise of certain call options. We currently hold a 52.5% equity interest in Woori Financial. Woori Financial provides leases and loans for various products, including automobiles, heavy machineries and medical equipments, as well as microlending services. We expect Woori Financial to continue to expand our customer base by providing a variety of non-banking financial services to retail customers as well as synergies through coordinated business operations with our other subsidiaries, including Woori Bank.

Life Insurance

We provide life insurance products and services through Woori Aviva Life Insurance. We acquired a 51.0% stake in Woori Aviva Life Insurance (formerly known as LIG Life Insurance) in April 2008. In connection with this acquisition, we entered into a joint venture agreement with Aviva International Holdings Limited. In September 2010, we acquired an additional 0.6% stake in Woori Aviva Life Insurance following our subscription for common shares newly issued by Woori Aviva Life Insurance. Aviva International Holdings Limited (through its wholly-owned subsidiary Aviva Asia Holdings Private Limited) and we collectively hold a 98.9% interest in Woori Aviva Life Insurance, which we account for as part of our investments in jointly controlled entities and associates under IFRS. Woori Aviva Life Insurance provides a variety of individual and group life insurance products, including health insurance, whole life insurance, savings-type insurance and pension insurance. Woori Aviva Life Insurance seeks to become a leading life insurance company in Korea by combining our extensive distribution and marketing network and large customer base with the life insurance industry expertise and experience provided by Aviva plc, and we expect that Woori Aviva Life Insurance will allow us to further our strategy of diversifying our non-banking revenue base to cover a full range of financial services and products as a comprehensive financial services provider.

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Competition

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

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

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank s merger with Shinhan Bank in April 2006 and Hana Financial Group s acquisition of a controlling interest in Korea Exchange Bank in February 2012. We expect that consolidation in the financial industry will continue. In particular, the Korean government has announced that it plans to privatize the Korea Development Bank. Other financial institutions may seek to acquire or merge with such or other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. See Item 3D. Risk Factors Risks relating to competition.

Assets and Liabilities

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities on a consolidated basis. Except as otherwise indicated, (i) amounts as of and for the years ended December 31, 2010 and 2011 are presented on a consolidated basis under IFRS, and (ii) amounts as of and for the years ended December 31, 2007, 2008 and 2009 are presented on a consolidated basis under U.S. GAAP and are not comparable to information prepared in accordance with IFRS.

Certain information with respect to our loan portfolio and the asset quality of our loans is presented below on a basis consistent with certain requirements of the Financial Services Commission applicable to Korean financial institutions, which differs (as described below where applicable) from the presentation of such information in our financial statements prepared in accordance with IFRS as issued by the IASB, as we believe that such alternative presentation allows us to provide additional details regarding our loan portfolio and the asset quality of our loans which would be helpful to our investors.

Loan Portfolio

As of December 31, 2011, the balance of our total loan portfolio was (Won)212,492 billion, a 5.6% increase from (Won)201,235 billion as of December 31, 2010. As of December 31, 2011, 86.8% of our total loans were Won-denominated loans and 13.2% of our total loans were denominated in other currencies. Of the (Won)27,974 billion of foreign currency-denominated loans as of that date, approximately 30.7% represented foreign loans provided by Woori Bank to offshore entities and individuals. Woori Bank makes foreign loans primarily through its overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

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Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting provisions for credit losses (or, in case of amounts under U.S GAAP, before deduction of allowance for loan losses) and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Loan Types

The following table presents loans by type as of the dates indicated under IFRS. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,		
	2010	2011	2011
	(in billions of Won)		(%)
Domestic:			
Corporate[1]:			
Commercial and industrial	(Won) 98,195	(Won) 101,738	47.9%
Lease financing	653	700	0.3
Trade financing	11,332	13,171	6.2
Other commercial	12,558	10,927	5.1
Total corporate	122,738	126,536	59.5
Consumer:			
General purpose household	32,992	32,709	15.4
Mortgage	6,375	12,138	5.7
Home equity	26,645	27,940	13.1
Total consumer	66,012	72,787	34.3
Credit cards	4,357	4,592	2.2
Total domestic	193,107	203,915	96.0
Foreign:			
Corporate[2]:			
Commercial and industrial	(Won) 7,185	(Won) 8,013	3.8
Lease financing			
Trade financing	129	165	0.1
Other commercial	69	272	0.1
Total corporate	7,383	8,450	4.0
Consumer	745	127	0.1
Total foreign	8,128	8,577	4.0
Total gross loans	201,235	212,492	100.0%
Total loans	201,235	212,492	
Less: present value discount	(16)	(31)	
Less: deferred origination costs (fees)	74	178	
Less: provisions for credit losses	(4,718)	(3,759)	
Total loans, net	(Won) 196,575	(Won) 208,880	

(1) Including loans made to banks and the Korean government and government-owned agencies.
(2) Including loans made to banks.
(3) Not including due from banks and other receivables.

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The following table presents loans by type as of the dates indicated under U.S. GAAP. Total loans reflect our loan portfolio, including past due amounts.

	As of December 31,		
	2007	2008	2009
	(in billions of Won)		
Domestic:			
Corporate:			
Commercial and industrial	(Won) 76,050	(Won) 93,931	(Won) 96,484
Lease financing	272	425	578
Trade financing	8,754	12,201	10,321
Other commercial	6,496	8,266	6,602
Total corporate	91,572	114,823	113,985
Consumer:			
General purpose household[1]	56,176	56,911	58,127
Mortgage	3,248	3,275	3,807
Total consumer	59,424	60,186	61,934
Credit cards	3,325	4,294	4,098
Total domestic	154,321	179,303	180,017
Foreign:			
Corporate:			
Commercial and industrial	(Won) 5,327	(Won) 9,015	(Won) 7,393
Trade financing	138	185	92
Total corporate	5,465	9,200	7,485
Consumer	99	129	115
Total foreign	5,564	9,329	7,600
Total gross loans	159,885	188,632	187,617
Less: Unearned income	(17)	(51)	(98)
Total loans	(Won) 159,868	(Won) 188,581	(Won) 187,519

(1) Includes home equity loans.

Loan Concentrations

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

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20 Largest Exposures by Borrower

As of December 31, 2011, our exposures to our 20 largest borrowers or issuers totaled (Won)46,006 billion and accounted for 12.1% of our total exposures. The following table sets forth our total exposures to those borrowers or issuers as of that date:

	Loans								
Company (Credit Rating)[1]	**Won currency**	**Foreign currency**	**Equity securities**	**Debt securities**	**Guarantees and acceptances**	**Credit derivatives**	**Total exposures**	**Collateral**	**Amounts Classified as substandard or below[2]**
					(in billions of Won)				
The Bank of Korea (AAA)	(Won) 290			(Won) 11,739			(Won) 12,029		
Government[3]				10,724			10,724		
Korea Finance Corporation (AAA)				2,643			2,643		
Korea Land Housing Corporation (AA)	10			2,066			2,076		
Korea Deposit Insurance Corporation (AA)	1,000			953			1,953		
Industrial Bank of Korea (AA)	551	(Won) 34	(Won) 3	1,155			1,743		
Samsung Electronics (AAA)	165	1,478	22				1,665		
Korea Housing Finance Corporation (AAA)				1,603			1,603		
Sung-Dong Ship Marin (C)	462				(Won) 985		1,447	(Won) 325	
Korea Development Bank (AAA)	17			1,194			1,211		
STX Offshore & Shipbuilding (A-)	98	128			914		1,140	156	
Kookmin Bank (AA)	461			623			1,084	253	
Hyundai Steel (A+)	435	273	3	254	118		1,083		
Daewoo International (A+)	46	530			411		987	9	
SH Corporation (AA)	510			441			951		
Shinhan Bank (AA)	64			799			863		
SK hynix (A+)		217	470	62	59		808	125	
POSCO (AAA)	127		359	91	109		686		
Small and Medium Business Corporation (AAA)				657			657		
Hyosung (A+)	172	310	3		168		653	119	
Total	(Won) 4,408	(Won) 2,970	(Won) 860	(Won) 35,004	(Won) 2,764	(Won)	(Won) 46,006	(Won) 987	(Won)

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2011: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.

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

(3) Credit ratings unavailable.

As of December 31, 2011, seven of these top 20 borrowers or issuers were companies belonging to the 30 largest *chaebols* in Korea. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, financial difficulties of *chaebols* may have an adverse impact on us.

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Exposure to Chaebols

As of December 31, 2011, 9.9% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2011, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Credit derivatives	Total exposures	Collateral	Amounts Classified as substandard or below[1]
				(in billions of Won)					
Samsung	(Won) 725	(Won) 1,778	(Won) 108	(Won) 417	(Won) 1,629	(Won) 108	(Won) 4,765	(Won) 85	
Hyundai Motors	1,274	654	62	972	565		3,527	131	
Hyundai Heavy Industries	257	181	6	223	2,521	11	3,199	12	
POSCO	514	561	359	141	826		2,401	19	
STX	512	419	1	30	1,420		2,382	266	
LG	911	688	35	288	159		2,081	25	
Kumho Asiana	1,072	489	78	107	159		1,905	564	
Sung-Dong Ship Marin	638				985		1,623	490	
SPP	277	50			1,078		1,405	381	
Doosan	467	275	12	46	526	43	1,369	83	
Total	(Won) 6,647	(Won) 5,095	(Won) 661	(Won) 2,224	(Won) 9,868	(Won) 162	(Won) 24,657	(Won) 2,056	

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

Loan Concentration by Industry

The following table shows, as of December 31, 2011, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending:

Industry	Aggregate corporate loan balance	Percentage of total corporate loan balance
	(in billions of Won)	
Manufacturing	(Won) 52,096	38.6%
Retail and wholesale	18,830	13.9
Construction	9,734	7.2
Financial and insurance	9,051	6.7
Hotel, leisure or transportation	5,099	3.8
Government and government agencies	438	0.3
Other	39,738	29.4
Total	(Won) 134,986	100.0%

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Maturity Analysis

The following table sets out, as of December 31, 2011, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed are before deduction of provisions for credit losses:

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
		(in billions of Won)		
Domestic				
Corporate[1]				
Commercial and industrial	(Won) 72,081	(Won) 21,745	(Won) 7,912	(Won) 101,738
Lease financing	98	602		700
Trade financing	13,169	2		13,171
Other commercial	7,592	1,998	1,337	10,927
Total corporate	92,940	24,347	9,249	126,536
Consumer[2]				
General purpose household	15,454	7,357	9,898	32,709
Mortgage	2,858	3,254	6,026	12,138
Home equity	11,131	5,839	10,970	27,940
Total consumer	29,443	16,450	26,894	72,787
Credit cards	3,366	1,213	13	4,592
Total domestic	125,749	42,010	36,156	203,915
Foreign				
Corporate				
Commercial and industrial	5,428	1,426	1,159	8,013
Lease financing				
Trade financing	164	1		165
Other commercial	157	115		272
Total corporate	5,749	1,542	1,159	8,450
Consumer:				
Other consumer	33	18	76	127
Total foreign	5,782	1,560	1,235	8,577
Total loans[3]	(Won) 131,531	(Won) 43,570	(Won) 37,391	(Won) 212,492

(1) Including loans made to banks and the Korean government and government-owned agencies.
(2) Including loans made to banks.
(3) Not including due from banks and other receivables, and before the deduction of provisions for credit losses and present value discount and the reflection of deferred origination costs.

A significant portion of our loans with maturities of one year is renewed annually. We typically roll over our working capital loans and consumer loans (other than those payable in installments) after we conduct our normal loan review in accordance with our loan review procedures. Under our internal guidelines, we may generally extend working capital loans on an annual basis for an aggregate term of five years, in the case of Woori Bank, or ten years, in the case of Kyongnam Bank and Kwangju Bank. Those guidelines also allow us to generally extend consumer loans for another term on an annual basis for an aggregate term of up to five years, in the case of Woori Bank, or ten years, in the case of Kyongnam Bank and Kwangju Bank.

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Interest Rates

The following table shows, as of December 31, 2011, the total amount of our loans due after one year, that have fixed interest rates and variable or adjustable interest rates:

	Domestic	Foreign	Total
		(in billions of Won)	
Fixed rate[1]	(Won) 17,259	(Won) 94	(Won) 17,353
Variable or adjustable rates[2]	60,907	2,701	63,608
Total loans	(Won) 78,166	(Won) 2,795	(Won) 80,961

(1) Fixed rate loans are loans for which the interest rate is fixed for the entire term.
(2) Variable or adjustable rate loans are loans for which the interest rate is not fixed for the entire term.

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

Asset Quality of Loans

Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting provisions for credit losses (or, in case of amounts under U.S GAAP, before deduction of allowance for loan losses) and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Loan Classifications

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

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

Asset Classification	Characteristics
Normal	Credits extended to customers that, based on our consideration of their business, financial position and future cash flows, do not raise concerns regarding their ability to repay the credits.
Precautionary	Credits extended to customers that:
	based on our consideration of their business, financial position and future cash flows, show potential risks with respect to their ability to repay the credits, although showing no immediate default risk; or

are in arrears for one month or more but less than three months.

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Asset Classification	Characteristics
Substandard	Either: credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or the portion that we expect to collect of total loans (1) extended to customers that have been in arrears for three months or more, (2) extended to customers that have incurred serious default risks due to the occurrence of, among other things, final refusal to pay their debt instruments, entry into liquidation or bankruptcy proceedings, or closure of their businesses, or (3) extended to customers who have outstanding loans that are classified as doubtful or estimated loss.
Doubtful	Credits exceeding the amount we expect to collect of total credits to customers that: based on our consideration of their business, financial position and future cash flows, have incurred serious default risks due to noticeable deterioration in their ability to repay; or have been in arrears for three months or more but less than twelve months.
Estimated Loss	Credits exceeding the amount we expect to collect of total credits to customers that: based on our consideration of their business, financial position and future cash flows, are judged to have to be accounted as a loss as the inability to repay became certain due to serious deterioration in their ability to repay; have been in arrears for twelve months or more; or have incurred serious risks of default in repayment due to the occurrence of, among other things, final refusal to pay their debt instruments, liquidation or bankruptcy proceedings or closure of their business.

Loan Loss Provisioning Policy

Under IFRS, we establish provisions for credit losses with respect to loans using either a case-by-case or collective approach. We assess individually significant loans on a case-by-case basis and other loans on a collective basis. In addition, if we determine that no objective evidence of impairment exists for a loan, we include such loan in a group of loans with similar credit risk characteristics and assess them collectively for impairment regardless of whether such loan is significant. If there is objective evidence that an impairment loss has been incurred for individually significant loans, the amount of the loss is measured as the difference between the financial asset s carrying amount and the present value of the estimated future cash flows discounted at such asset s original effective interest rate. Future cash flows are estimated through a case-by-case analysis of individually assessed assets, which takes into account the benefit of any guarantee or other collateral held. The value and timing of future cash flow receipts are based on available estimates in conjunction with facts available at the time of review and reassessed on a periodic basis as new information becomes available.

For collectively assessed loans, we base the level of provisions for credit losses on a portfolio basis in light of the homogenous nature of the assets included in each portfolio. The provisions are determined based on a quantitative review of the relevant portfolio, taking into account such factors as the level of arrears, the value of any security, and historical and projected cash recovery trends over the recovery period. The methodologies we use to estimate collectively assessed provisions reflect the probability that the performing customer will default, our historical loss experience (as adjusted by current economic and credit conditions where appropriate) and the emergence period between an impairment event occurring and a loan being identified and reported as impaired.

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If additions or changes to the provisions for credit losses are required, then we record bad debt expenses, which are included in impairment losses on credit loss and treated as charges against current income. Credit exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously charged-off amounts, are charged directly against the provisions for credit losses. See Item 5A. Operating Results Critical Accounting Policies Impairment of Loans and Provisions for Credit Losses.

We also consider the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;
- loans to corporate borrowers that are rated D according to our internal credit ratings; and
- restructured loans.

In addition, if our provisions for credit losses are deemed insufficient for regulatory purposes, we compensate for the difference by recording a planned regulatory reserve for credit loss, which is segregated within our retained earnings. The level of planned regulatory reserve for credit loss required to be recorded is equal to the amount by which our provisions for credit losses under IFRS are less than the greater of (x) the amount of expected loss calculated using the internal ratings-based approach under Basel II and as approved by the Financial Supervisory Service and (y) the required amount of credit loss reserve calculated based on guidelines prescribed by the Financial Services Commission. The following table sets forth the Financial Services Commission s guidelines for the minimum percentages of the outstanding principal amount of the relevant loans or balances that the credit loss reserve must cover:

Loan classifications	Corporate	Consumer	Credit card receivables(1)	Credit card loans(2)
Normal	0.85% or above	1% or above	1.1% or above	2.5% or above
Precautionary	7% or above	10% or above	40% or above	50% or above
Substandard	20% or above	20% or above	60% or above	65% or above
Doubtful	50% or above	55% or above	75% or above	75% or above
Estimated loss	100%	100%	100%	100%

(1) Applicable for credit card receivables for general purchases of products or services.
(2) Applicable for cash advances, card loans and revolving loan receivables.

Under U.S. GAAP, we established our allowance for loan losses for corporate loans based on whether a particular loan was identified as impaired or not, using an incurred loss model (as we used a 12 month finite emergence period corroborated by historical data regarding such corporate loan portfolio). Once we identified a loan as impaired under U.S. GAAP, we generally measured the value of the loan based on the present value of expected future cash flows discounted at the loan s effective interest rate or, as a practical expedient, at the loan s observable market price or the fair value of the collateral if the loan was collateral dependent. If the measured value was less than the book value of the loan, we established a specific allowance for the amount deemed uncollectible. Where the entire impaired loan or a portion of the impaired loan was secured by collateral or a guarantee, we considered the fair value of the collateral or the guarantee payment in establishing the level of the allowance. Alternatively, for impaired loans that were considered collateral dependent, we determined the amount of impairment by reference to the fair value of the collateral. In addition, for certain foreign corporate loans that were considered impaired, we determined the fair value by reference to observable market prices, when available.

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Under U.S. GAAP, we also established allowances for losses for corporate loans that had not been individually identified as impaired, consumer loans and credit card balances. These allowances were based on the level of our incurred loss, which reflected default probability and loss severity. We established the incurred loss related to corporate loans that we did not deem to be impaired based on historical loss experience, which depended on the internal credit rating of the borrower, characteristics of the lending product and relevant collateral. We established the incurred loss related to consumer loans and credit card balances based on historical loss experience generally for a period of one year, which depended on delinquency and collateral.

The process to determine the provision for off-balance sheet positions under IFRS is similar to the methodology used for loans. Any loss amounts are recognized as a provision in the consolidated statements of financial position within liabilities and charged to the consolidated statement of income as a component of the impairment loss for credit losses.

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

Non-Accrual Loans and Past Due Accruing Loans

Although we do not identify or segregate non-accrual loans as a conceptual matter in our financial statements prepared in accordance with IFRS as issued by the IASB, we continue to monitor and manage our non-accrual loans. We generally place loans on non-accrual status when payments of interest and/or principal become past due by 90 days. In addition, the following types of loans are classified as non-accrual loans by us even if such loans are not past due:

- Loans to creditors with dishonored notes or checks;
- Loans for which interest payments are reduced or postponed (e.g., through work-out procedures or debt restructurings); and
- Loans to creditors included in the watch list maintained by the Korea Federation of Banks.

We reclassify loans as accruing when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. We generally do not recognize interest income on non-accrual loans unless collected. In applying payments on non accrual loans, we first apply payments to the delinquent interest outstanding, then to non-delinquent interest, and then to the outstanding loan balance until the loan is paid in full.

Foregone interest is the interest due on non-accrual loans that we have not accrued in our books. If we had not foregone interest on our non-accrual loans, we would have recorded gross interest income of (Won)178 billion and (Won)104 billion for 2010 and 2011, respectively, on loans accounted for on a non-accrual basis throughout the year, or since origination for loans held for part of the year. The actual amount of interest income on those loans included in our net income for 2010 and 2011 was (Won)103 billion and (Won)87 billion, respectively.

The category accruing but past due 90 days includes loans that are still accruing interest but on which principal or interest payments are contractually past due 90 days or more. We continue to accrue interest on loans that are fully secured by deposits or on which there are financial guarantees from the Korean government, the KDIC or certain financial institutions.

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The following table shows, as of the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans under IFRS which were past due 90 days or more:

	As of December 31,					
	2010			2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in billions of Won)					
Loans accounted for on a non-accrual basis[1]						
Corporate[2]	(Won) 4,509	(Won) 19	(Won) 4,528	(Won) 4,177	(Won) 132	(Won) 4,309
Consumer[3]	1,293		1,293	601		601
Sub-total	5,802	19	5,821	4,778	132	4,910
Accruing loans which are contractually past due 90 days or more as to principal or interest[1]						
Corporate[2]	43	3	46	26	10	36
Consumer	19		19	5		5
Sub-total	62	3	65	31	10	41
Total	(Won) 5,864	(Won) 22	(Won) 5,886	(Won) 4,809	(Won) 142	(Won) 4,951

(1) Not including due from banks and other receivables, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.
(2) Including loans made to banks and the Korean government and government-owned agencies.
(3) Includes credit card balances of (Won)207 billion and (Won)197 billion as of December 31, 2010 and 2011, respectively.

Under U.S. GAAP, we generally placed loans on non-accrual status when payments of interest and/or principal became past due by one day. For the year ended December 31, 2009, we would have recorded gross interest income of (Won)254 billion on loans accounted for on a non-accrual basis under U.S. GAAP in accordance with the foregoing throughout the year, or since origination for loans held for part of the year, had we not foregone interest on those loans. Under U.S. GAAP, the amount of interest income on those loans that was included in our net income for the year ended December 31, 2009 was (Won)136 billion.

The following table shows, as of the dates indicated, the amount of loans that were placed on a non-accrual basis and accruing loans under U.S. GAAP which were past due one day or more:

	As of December 31,								
	2007			2008			2009		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in billions of Won)								
Loans accounted for on a non-accrual basis									
Corporate	(Won) 1,147	(Won) 4	(Won) 1,151	(Won) 2,011	(Won) 1	(Won) 2,012	(Won) 2,298	(Won) 42	(Won) 2,340
Consumer[1]	1,685	1	1,686	2,166		2,166	1,263		1,263
Sub-total	2,832	5	2,837	4,177	1	4,178	3,561	42	3,603
Accruing loans which are contractually past due one day or more as to principal or									

interest[2]									
Corporate	177		177	28		28	98	11	109
Consumer	41		41	47		47	26		26
Sub-total	218		218	75		75	124	11	135
Total	(Won) 3,050	(Won) 5	(Won) 3,055	(Won) 4,252	(Won) 1	(Won) 4,253	(Won) 3,685	(Won) 53	(Won) 3,738

(1) Includes credit card balances of (Won)199 billion, (Won)290 billion and (Won)105 billion as of December 31, 2007, 2008 and 2009, respectively.

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

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Loan Aging Schedule

The following table shows our loan aging schedule (excluding accrued interest) as of the dates indicated under IFRS. In line with industry practice, we have restructured a portion of our delinquent credit card balances as loans.

	As of December 31, 2011											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%
	(in billions of Won, except percentages)											
Domestic												
Corporate[1]												
Commercial and industrial	(Won) 100,069	47.1%	(Won) 352	0.2%	(Won) 426	0.2%	(Won) 232	0.1%	(Won) 659	0.3%	(Won) 101,738	47.9%
Lease financing	662	0.3%	16	0.0%	5	0.0%	6	0.0%	11	0.0%	700	0.3%
Trade financing	13,102	6.2%	23	0.0%	27	0.0%	6	0.0%	11	0.0%	13,171	6.2%
Other commercial	9,860	4.6%	25	0.0%	31	0.0%	8	0.0%	1,003	0.5%	10,927	5.1%
Total corporate	123,693	58.2%	416	0.2%	489	0.2%	254	0.1%	1,684	0.8%	126,536	59.5%
Consumer												
General purpose household	32,048	15.1%	391	0.2%	74	0.0%	61	0.0%	135	0.1%	32,709	15.4%
Mortgages	12,016	5.7%	93	0.0%	8	0.0%	7	0.0%	14	0.0%	12,138	5.7%
Home equity	27,399	12.9%	346	0.2%	54	0.0%	42	0.0%	99	0.0%	27,940	13.1%
Total consumer	71,463	33.6%	830	0.4%	136	0.1%	110	0.1%	248	0.1%	72,787	34.2%
Credit cards	4,329	2.0%	146	0.1%	48	0.0%	47	0.0%	2	0.0%	4,592	2.1%
Total domestic	199,505	93.9%	1,392	0.7%	673	0.3%	411	0.2%	1,934	0.9%	203,915	96.0%
Foreign												
Corporate[2]												
Commercial and industrial	7,919	3.7%	5	0.0%	14	0.0%	58	0.0%	17	0.0%	8.013	3.7%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	165	0.1%		0.0%		0.0%		0.0%		0.0%	165	0.1%
Other commercial	272	0.1%		0.0%		0.0%		0.0%		0.0%	272	0.1%
Total corporate	8,356	3.9%	5	0.0%	14	0.0%	58	0.0%	17	0.0%	8,450	3.9%
Consumer	124	0.1%	1	0.0%		0.0%		0.0%	2	0.0%	127	0.1%
Total foreign	8,480	4.0%	6	0.0%	14	0.0%	58	0.0%	19	0.0%	8,577	4.0%

Total loans[3]	(Won) 207,985	97.9%	(Won) 1,398	0.7%	(Won) 687	0.3%	(Won) 469	0.2%	(Won) 1,953	0.9%	(Won) 212,492	100.0%

(1) Including loans made to banks and the Korean government and government-owned agencies.
(2) Including loans made to banks.
(3) Not including due from banks and other receivables, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.

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As of December 31, 2010

	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%
	(in billions of Won, except percentages)											
Domestic												
Corporate[1]												
Commercial and industrial	(Won) 96,420	47.9%	(Won) 333	0.2%	(Won) 297	0.1%	(Won) 424	0.2%	(Won) 721	0.4%	(Won) 98,195	48.8%
Lease financing	618	0.3%	10	0.0%	10	0.0%	8	0.0%	7	0.0%	653	0.3%
Trade financing	10,922	5.4%	35	0.0%	43	0.0%	305	0.2%	27	0.0%	11,332	5.6%
Other commercial	11,810	5.9%	12	0.0%	33	0.0%	22	0.0%	681	0.3%	12,558	6.2%
Total corporate	119,770	59.5%	390	0.2%	383	0.2%	759	0.4%	1,436	0.7%	122,738	60.9%
Consumer												
General purpose household	32,505	16.2%	286	0.1%	56	0.0%	64	0.0%	81	0.0%	32,992	16.3%
Mortgages	6,310	3.1%	46	0.0%	7	0.0%	6	0.0%	6	0.0%	6,375	3.1%
Home equity	26,266	13.1%	248	0.1%	31	0.0%	42	0.0%	58	0.0%	26,645	13.2%
Total consumer	65,081	32.3%	580	0.3%	94	0.0%	112	0.1%	145	0.1%	66,012	32.6%
Credit cards	4,151	2.1%	103	0.1%	50	0.0%	47	0.0%	6	0.0%	4,357	2.2%
Total domestic	189,002	93.9%	1,073	0.5%	527	0.3%	918	0.5%	1,587	0.8%	193,107	96.0%
Foreign												
Corporate[2]												
Commercial and industrial	7,157	3.6%	1	0.0%	12	0.0%	1	0.0%	14	0.0%	7,185	3.6%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	129	0.1%		0.0%		0.0%		0.0%		0.0%	129	0.1%
Other commercial	69	0.0%		0.0%		0.0%		0.0%		0.0%	69	0.0%
Total corporate	7,355	3.7%	1	0.0%	12	0.0%	1	0.0%	14	0.0%	7,383	3.7%
Consumer	731	0.4%	5	0.0%	3	0.0%	2	0.0%	4	0.0%	745	0.4%
Total foreign	8,086	4.0%	6	0.0%	15	0.0%	3	0.0%	18	0.0%	8,128	4.0%
Total loans[3]	(Won) 197,088	97.9%	(Won) 1,079	0.5%	(Won) 542	0.3%	(Won) 921	0.5%	(Won) 1,605	0.8%	(Won) 201,235	100.0%

(1) Including loans made to banks and the Korean government and government-owned agencies.
(2) Including loans made to banks.
(3) Not including due from banks and other receivables, and prior to deducting provisions for credit losses and present value discount or reflecting deferred origination costs.

The following table shows our loan aging schedule (excluding accrued interest) as of December 31, 2009 under U.S. GAAP.

As of December 31,	Normal Amount	%	1-3 months Amount past due	%	3-6 months Amount past due	%	More than 6 months Amount past due	%	Total Amount	%
	(in billions of Won, except percentages)									
2009	185,250	98.8%	1,375	0.7%	324	0.2%	570	0.3%	187,519	100.0%

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which we, together with the borrower and other creditors, restructure a borrower s credit terms. Previously, workouts were regulated under the Corporate Restructuring Promotion Act, which was enacted in 2007 and expired on December 31, 2010. In April 2011, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective on May 19, 2011. Workouts that had been initiated under the Corporate Restructuring Promotion Act are also governed by the New Corporate Restructuring Promotion Act effective from May 19, 2011. Under the New Corporate Restructuring Promotion Act, which is similar to the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower are required to participate in a creditors committee which is authorized to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganization plan prepared by the borrower. Any decision of the creditors committee requires the approval of creditor financial institutions holding interests as creditor in 75% or more of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding interests as creditor in 75% or more of the secured debt is required with respect to the borrower s debt restructuring. Once approved, any decision made by the creditors committee is binding on all the creditor financial institutions of the borrower. Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the coordination committee may request a court to change such decision. The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2013.

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

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2011, (Won)3,387 billion, or 1.3%, of our total loans and debt securities were in workout, restructuring or rehabilitation. This included (Won)1,973 billion of loans to and debt securities of large corporate borrowers in workout, restructuring or rehabilitation and (Won)1,304 billion of loans to and debt securities of small- and medium-sized enterprises in workout, restructuring or rehabilitation, which represented 0.8% and 0.5% of our total loans and debt securities, respectively. Currently, a specialized unit in each of our banking subsidiaries manages their workout, restructured and rehabilitated loans. At Woori Bank, for example, the Corporate Restoration Department manages its workout, restructured and rehabilitated loans. Upon approval of a workout, restructuring or rehabilitation plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our provisions for credit losses.

The following table shows, as of December 31, 2011, our ten largest exposures that were in workout, restructuring or rehabilitation:

Company (Credit Rating)[1]	Loans: Won Currency	Loans: Foreign Currency	Equity Securities	Debt Securities	Guarantees and Acceptances	Total Exposures	Collateral[2]	Amounts Classified as Substandard or Below[3]	Provisions for Credit Loss
	(in billions of Won)								
Kumho Industrial (B+)	(Won) 359		(Won) 48	(Won) 79	(Won) 79	(Won) 565	(Won) 221		(Won) 23
Kumho Tire (B+)	102	(Won) 354	25		23	504	96		55
Poonglim (D)	379					379	119	(Won) 379	290
Shina SB (D)	16				333	349	144	16	15
Byucksan Construction (D)	150				6	156	51	156	107
21st Century Shipbuilding (D)	49	2	1		64	116	22	90	78
Chinhung (D)	100					100		100	86
Jeil Construction(B+)	96					96	1		4
Namkwang Engineering & Construction (D)	65				25	90	38	50	48
Samho (C)	67					67		66	46
Total	(Won) 1,383	(Won) 356	(Won) 74	(Won) 79	(Won) 530	(Won) 2,422	(Won) 692	(Won) 857	(Won) 752

(1) Credit rating as of December 31, 2011, from one of the following Korean credit agencies: Korea Information Service Inc., National Information & Credit Evaluation, Inc. or Korea Ratings.

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

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

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Troubled Debt Restructurings

The following table presents, as of the dates indicated, our loans that are troubled debt restructurings for which we for economic or legal reasons relating to the debtor s financial difficulties grant a concession to the debtor that we would not otherwise consider. These loans consist principally of corporate loans that are accruing interest at rates lower than the original contractual terms as a result of a variation of terms upon restructuring.

	As of December 31,														
	2007			2008			2009			2010			2011		
	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total	Domestic	Foreign	Total
	(in billions of Won)														
Loans not included in non-accrual and past due loans which are classified as troubled debt restructurings	(Won) 329		(Won) 329	(Won) 483		(Won) 483	(Won) 1,518		(Won) 1,518	(Won) 2,791		(Won) 2,791	(Won) 3,233		(Won) 3,233

For 2011, interest income that we would have recorded under the original contract terms of restructured loans amounted to (Won)53 billion, of which we reflected (Won)42 billion as interest income for 2011.

Potential Problem Loans

As of December 31, 2011, we had (Won)4,496 billion of corporate loans in respect of which we had serious doubt as to the borrower s ability to comply with repayment terms in the near future. Potential problem loans are precautionary loans that we determine, through our internal loan review process, require close management due to the borrower s financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business.

Other Problematic Interest-Earning Assets

We have in the past received certain other interest-earning assets in connection with troubled debt restructurings that, if they were loans, would be required to be disclosed as part of the non-accrual, past due or restructuring or potential problem loan disclosures provided above. However, as of December 31, 2011, we had no such assets.

Non-Performing Loans

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

	As of December 31,	
	2010	2011
	(in billions of Won, except percentages)	
Total non-performing loans	(Won) 6,550[(1)]	(Won) 3,780[(2)]
As a percentage of total loans	3.3%	1.8%

(1) Excludes (Won)34 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(2) Excludes (Won)43 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

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The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio under U.S. GAAP:

	As of December 31,		
	2007	2008	2009
	(in billions of Won, except percentages)		
Total non-performing loans	(Won) 1,121[1]	(Won) 2,088[2]	(Won) 2,489[3]
As a percentage of total loans	0.7%	1.1%	1.3%

(1) Excludes (Won)5 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(2) Excludes (Won)14 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(3) Excludes (Won)20 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

The above amounts do not include loans classified as substandard or below that we or any of our predecessor entities sold to KAMCO, United Asset Management Corp. or to certain special purpose companies. See Sales of Non-Performing Loans.

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

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

	As of December 31,			
	2010		2011	
	Amount	%	Amount	%
	(in billions of Won, except percentages)			
Domestic				
Corporate				
Commercial and industrial	(Won) 5,317	81.2%	(Won) 2,846	75.3%
Lease financing	3	0.1	6	0.1
Trade financing	245	3.7	98	2.6
Other commercial	526	8.0	281	7.4
Total corporate	6,091	93.0	3,231	85.4
Consumer				
General purpose household[1]	294	4.4	378	10.0
Mortgage	12	0.2	18	0.5
Total consumer	306	4.6	396	10.5
Credit cards	51	0.8	63	1.7
Total domestic	6,448	98.4	3,690	97.6
Foreign				
Corporate				
Commercial and industrial	65	1.0	90	2.4
Lease financing				
Trade financing				
Other commercial				
Total corporate	65	1.0	90	2.4
Consumer	37	0.6		0.0
Total foreign	102	1.6	90	2.4

Total non- performing loans	(Won) 6,550	100.0%	(Won) 3,780	100.0%

(1) Includes home equity loans.

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

	As of December 31,					
	2007		2008		2009	
	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	(Won) 788	70.3%	(Won) 1,592	76.2%	(Won) 1,819	73.1%
Lease financing	4	0.4	9	0.4	11	0.4
Trade financing	45	4.0	112	5.4	112	4.5
Other commercial	4	0.4	7	0.3	152	6.1
Total corporate	841	75.1	1,720	82.4	2,094	84.1
Consumer						
General purpose household[(1)]	241	21.5	285	13.6	257	10.3
Mortgage			12	0.6	10	0.4
Total consumer	241	21.5	297	14.2	267	10.7
Credit cards	36	3.2	57	2.7	52	2.1
Total domestic	1,118	99.7	2,074	99.3	2,413	96.9
Foreign						
Corporate						
Commercial and industrial	3	0.3	14	0.7	76	3.1
Lease financing						
Trade financing						
Other commercial						
Total corporate	3	0.3	14	0.7	76	3.1
Consumer						
Total foreign	3	0.3	14	0.7	76	3.1
Total non-performing loans	(Won) 1,121	100.0%	(Won) 2,088	100.0%	(Won) 2,489	100.0%

(1) Includes home equity loans.

The following table presents an analysis of the changes in our non-performing loans under IFRS for 2011:

	2011
	(in billions of Won)
Non-performing loans as of January 1, 2011	6,550
Additions to non-performing loans	3,682
Loans transferred into non-performing loans	3,682
Reductions in non-performing loans	(6,452)
Loans transferred to the held-for-sale investment portfolio	
Loans sold	(1,643)
Loans modified and returned to performing loans	(1,229)
Loans paid down or paid off	(1,088)
Loans charged-off	(2,369)

Others	(123)
Total net additions to non-performing loans	(2,770)
Total non-performing loans as of December 31, 2011	3,780

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Top 20 Non-Performing Loans. As of December 31, 2011, our 20 largest non-performing loans accounted for 39.3% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans:

	Gross principal outstanding	Provisions for credit losses (in billions of Won)	Collateral[1]	Industry
Borrower A	(Won) 379	(Won) 290	(Won) 119	Construction
Borrower B	155	107	51	Construction
Borrower C	100	86		Construction
Borrower D	90	77	22	Manufacturing
Borrower E	66	17	47	Manufacturing
Borrower F	66	46		Construction
Borrower G	62	32		Construction
Borrower H	61	8	53	Manufacturing
Borrower I	60	2	60	Other
Borrower J	56	18		Financial and insurance
Borrower K	51	13		Financial and insurance
Borrower L	50	48	38	Construction
Borrower M	47	8	15	Retail and wholesale
Borrower N	46	22	56	Manufacturing
Borrower O	41	12	41	Manufacturing
Borrower P	36	25		Construction
Borrower Q	31	10		Construction
Borrower R	30	7	30	Other
Borrower S	29	19		Manufacturing
Borrower T	28	17		Manufacturing
Total	(Won) 1,484	(Won) 864	(Won) 532	

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

Non-Performing Loan Strategy

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

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

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

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

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

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

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

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

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

Foreclosure and Collateral. We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2010 and 2011, we foreclosed on collateral we obtained with respect to loan balances representing approximately 0.2% and 0.2% respectively, of our average interest-bearing loan balances in each of those periods.

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

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

Sales of Non-Performing Loans

The overall asset quality of our loan portfolio is affected by sales of non-performing loans. These sales have been made primarily to KAMCO, United Asset Management Corp. and various special purpose companies as further described below.

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

	Year Ended December 31,					
	2010			2011		
Purchaser	Principal Amount Sold	Sale Price	Gain (loss)	Principal Amount Sold	Sale Price	Gain (loss)
	(in billions of Won)					
KAMCO	(Won) 346	(Won) 187	(Won) (87)	(Won) 179	(Won) 56	(Won) (27)
Special purpose companies	763	663	25	281	247	13
UAMCO[1]	256	172	(19)	829	526	(105)
Others		4	4	354	132	(35)
Total	(Won) 1,365	(Won) 1,026	(Won) (77)	(Won) 1,643	(Won) 961	(Won) (154)

(1) For the year ended December 31, 2011, includes sales to the private equity fund for which UAMCO serves as the general partner. See United Asset Management Corp.

Korea Asset Management Corporation. The Korean government has authorized KAMCO to purchase certain assets (primarily loans classified as substandard or below) from Korean financial institutions at discounted prices. In addition, in March 2009, the Korean government announced its plans to provide support to financial institutions and companies in the project finance industry by purchasing, through KAMCO, up to (Won)4.7 trillion of project finance loans designated by the Financial Supervisory Service as endangered.

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

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

In addition, we may be required to repurchase any loan relating to a borrower that has applied to a court for reorganization or that is the subject of reorganization proceedings at the time the loan was sold to KAMCO if a court rejects the application for reorganization, disapproves the reorganization plan or fails to approve the reorganization plan within two years of the sale. We may also be required to repurchase a loan if a court determines that the borrower cannot meet the terms of the repayment schedule developed in the reorganization proceeding. The ability of

KAMCO to exercise its right to require us to repurchase loans sold is without limit. As of December 31, 2011, we did not have any loans subject to these repurchase rights.

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Special Purpose Companies. Sales of our non-performing loans to joint venture special purpose companies include sales to (i) special purposes companies in which Woori F&I, our wholly-owned subsidiary, holds an equity interest not exceeding 50% and does not have effective control and (ii) special purpose companies in which we have no involvement (other than as a seller of loans). Woori AMC Co, Ltd., our indirect wholly owned subsidiary, manages the substandard or below loans purchased from us by such special purpose companies and receives asset management fees from such special purpose companies, as well as a performance fee based on a percentage of asset resolutions.

United Asset Management Corp. United Asset Management Corp., or UAMCO, was established in late 2009 in the wake of the global financial crisis by six major commercial banks in Korea, including Woori Bank, to purchase, sell and securitize non-performing loans and to engage in corporate restructuring activities, among other things. Woori Bank has committed to contribute (Won)150 billion of capital to UAMCO, of which (Won)73 billion has been contributed to date, and has also provided a credit line of (Won)74 billion to UAMCO, under which no amounts have been drawn down to date. Woori Bank currently holds a 15% equity interest in UAMCO. The terms of our sale of loans to UAMCO, we are not required to repurchase any such loans, provide post-sale price adjustments or otherwise continue to be involved with such loans subsequent to their sale in any material respect.

Pursuant to a memorandum of understanding among the Financial Supervisory Service and seven banks, including Woori Bank, a private equity fund was established in June 2011 to acquire approximately (Won)1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is UAMCO and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, we agreed to make a capital commitment of (Won)148 billion and provide a (Won)109 billion revolving loan facility to the fund. From June to December 2011, we contributed the entire amount of our capital commitment to the fund in connection with its purchase of (Won)443 billion of non-performing loans from us.

Others. In addition to sales of loans to KAMCO, various special purpose companies and UAMCO, we sell non-performing loans to various private investment companies. Pursuant to the terms of such sales to private investment companies, we are not required to repurchase any such loans, provide post-sale price adjustments or otherwise continue to be involved with such loans subsequent to their sale in any material respect.

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Allocation and Analysis of Provisions for Credit Losses under IFRS

The following table presents, as of the dates indicated, the allocation of our provisions for credit losses by loan type under IFRS:

	As of December 31,			
	2010		2011	
	(in billions of Won, except percentages)			
Domestic				
Corporate				
Commercial and industrial	(Won) 3,459	73.3%	(Won) 2,690	74.1%
Lease financing	5	0.1	5	0.1
Trade financing	268	5.7	187	5.2
Other commercial	479	10.1	348	9.6
Total corporate	4,211	89.3	3,230	89.0
Consumer				
General purpose household[1]	208	4.4	249	6.8
Mortgage	5	0.1	8	0.2
Total consumer	213	4.5	257	7.1
Credit cards	126	2.7	132	3.6
Total domestic	4,550	96.4	3,619	96.1
Foreign				
Corporate				
Commercial and industrial	150	3.2	139	3.8
Lease financing				
Trade financing	0	0.0	0	0.0
Other commercial	0	0.0	1	0.0
Total corporate	150	3.2	140	3.9
Consumer	18	0.4	0	0
Total foreign	(Won) 168	3.6	(Won) 140	3.9
Total provisions for credit losses	(Won) 4,718	100.0%	(Won) 3,759	100.0%

(1) Includes home equity loans.

The following table presents an analysis of the changes in our provisions for credit losses under IFRS for each of the years indicated:

	Year ended December 31,	
	2010	2011
	(in billions of Won)	
Balance at the beginning of the period	(Won) 3,508	(Won) 4,718
Bad debt expenses for the period	3,025	2,085
Increase on repurchases of non-performing loans	10	4
Gross charge-offs		
Domestic		
Corporate		
Commercial and industrial	(1,031)	(1,577)
Lease financing	(5)	(4)

Trade financing	(100)	(238)
Other commercial	(63)	(304)
Total corporate	(1,199)	(2,123)

	Year ended December 31, 2010	2011
	(in billions of Won)	
Consumer		
General purpose household[(1)]	(86)	(75)
Mortgage	(20)	(14)
Total consumer	(106)	(89)
Credit cards	(140)	(142)
Total domestic	(1,445)	(2,354)
Foreign	(61)	(15)
Provisions relating to loans sold	(268)	(538)
Total gross charge-offs	(1,774)	(2,907)
Recoveries:		
Domestic		
Corporate		
Commercial and industrial	65	33
Lease financing	1	1
Trade financing	10	10
Other commercial	9	10
Total corporate	85	54
Consumer		
General purpose household[(1)]	11	8
Mortgage	1	9
Total consumer	12	17
Credit cards	65	33
Total domestic	162	104
Foreign	7	
Total recoveries	169	104
Net charge-offs	(1,605)	(2,803)
Foreign exchange translation effects	(2)	34
Others[(2)]	(218)	(279)
Balance at the end of the period	(Won) 4,718	(Won) 3,759
Ratio of net charge-offs during the period to average loans outstanding during the period	0.8%	1.3%

(1) Includes home equity loans.
(2) Includes unwinding of discount.

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Allocation and Analysis of Allowances for Loan Losses under U.S. GAAP

The following table presents, as of the dates indicated, the allocation of our allowances for loan losses by loan type under U.S. GAAP:

	As of December 31, 2007		2008		2009	
	(in billions of Won, except percentages)					
Domestic						
Corporate						
Commercial and industrial	(Won) 1,068	61.5%	(Won) 1,936	65.8%	(Won) 2,653	74.6%
Lease financing	15	0.9	4	0.1	11	0.3
Trade financing	88	5.1	187	6.4	279	7.8
Other commercial	69	4.0	217	7.4	166	4.7
Total corporate	1,240	71.4	2,344	79.7	3,109	87.4
Consumer						
General purpose household[1]	331	19.1	320	10.9	182	5.1
Mortgage	21	1.2	16	0.5	11	0.3
Total consumer	352	20.3	336	11.4	193	5.4
Credit cards	59	3.4	97	3.3	78	2.2
Total domestic	1,651	95.1	2,777	94.4	3,380	95.0
Foreign						
Corporate						
Commercial and industrial	58	3.3	161	5.5	175	4.9
Lease financing						
Trade financing	1	0.1	3	0.1	2	0.1
Other commercial						
Total corporate	59	3.4	164	5.6	177	5.0
Consumer	26	1.5				
Total foreign	(Won) 85	4.9	(Won) 164	5.6	(Won) 177	5.0
Total allowance for loan losses	(Won) 1,736	100.0%	(Won) 2,942	100.0%	(Won) 3,557	100.0%

(1) Includes home equity loans.

The following table presents an analysis of the changes in our allowances for loan losses under U.S. GAAP for each of the years indicated:

	Year ended December 31, 2007	2008	2009
	(in billions of Won)		
Balance at the beginning of the period	(Won) 1,855	(Won) 1,736	(Won) 2,942
Provision for credit losses	219	1,608	2,408
Allowance relating to credit-related commitments transferred to loans	11	13	47
Allowance relating to loans acquired in connection with acquisitions of Woori Securities, Kyongnam Bank, Kwangju Bank and Peace Bank of Korea			
Gross charge-offs			
Domestic			
Corporate			

Commercial and industrial	(175)	(186)	(757)
Lease financing	(2)	(1)	(9)
Trade financing	(28)	(24)	(81)
Other commercial	(19)	(16)	(47)
Total corporate	(224)	(227)	(894)

	Year ended December 31, 2007	2008	2009
		(in billions of Won)	
Consumer			
General purpose household[1]	(176)	(113)	(456)
Mortgage	(10)	(6)	(30)
Total consumer	(186)	(119)	(486)
Credit cards	(83)	(113)	(203)
Total domestic	(493)	(459)	(1,583)
Foreign	(18)	(19)	(60)
Allowance relating to loans sold		(40)	(317)
Total gross charge-offs	(511)	(518)	(1,960)
Recoveries:			
Domestic			
Corporate			
Commercial and industrial	34	14	44
Lease financing	1		1
Trade financing	9	2	5
Other commercial	6	1	3
Total corporate	50	17	53
Consumer			
General purpose household	36	8	27
Mortgage and home equity	3	1	2
Total consumer	39	9	29
Credit cards	66	61	59
Total domestic	155	87	141
Foreign	6	1	3
Total recoveries	161	88	144
Net charge-offs	(350)	(430)	(1,816)
Foreign exchange translation effects	1	15	(24)
Balance at the end of the period	(Won) 1,736	(Won) 2,942	(Won) 3,557
Ratio of net charge-offs during the period to average loans outstanding during the period[2]	0.24%	0.23%	0.97%

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

Loan Charge-Offs

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

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

loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;

loans for which collection is not foreseeable due to the death or disappearance of the debtor;

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loans for which expenses of collection exceed the collectable amount;

loans on which collection is not possible through legal or any other means;

payments in arrears in respect of credit cards that have been overdue for more than four payment cycles and have been classified as expected loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations), and those that have been overdue for more than six months;

payments outstanding on corporate and consumer loans (other than credit card receivables) that have been overdue for more than 12 months, and those on unsecured consumer loans that have been overdue for more than six months; or

the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

Procedure for Charge-off Approval. In order to charge off corporate loans, in the case of Woori Bank, an application for a charge-off must be submitted by a branch to the Credit Management and Collection Department promptly and, in any event, within one month after the corporate loan is classified as estimated loss. The relevant department or team evaluates and approves the application. Then, Woori Bank must seek an approval from the Financial Supervisory Service for our charge-offs, which is typically granted. At the same time, Woori Bank refers the approval of the charge-off by the Credit Management and Collection Department to its Audit Committee for their review to ensure compliance with our internal procedures for charge-offs, which include consultations with the branch submitting the charge-off application. Once Woori Bank receives approval from the Financial Supervisory Service, Woori Bank must also obtain approval from its senior management to charge off those loans.

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

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

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

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

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

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval by creditor financial institutions representing a majority of the outstanding unsecured debt and two-thirds of the outstanding secured debt, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding (Won)500 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit. The aggregate amount of loans (including credit card receivables) of Woori Bank, Kwangju Bank and Kyongnam Bank which became subject to such individual work-out programs in 2011 was (Won)71 billion. In 2011, Woori Bank, Kwangju Bank and Kyongnam Bank recovered (Won)9 billion in the aggregate with respect to their loans subject to such individual work-out programs.

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On April 1, 2006, the Korean Debtor Recovery and Bankruptcy Law took effect and replaced the Individual Debtor Rehabilitation Law. Under the Korean Debtor Recovery and Bankruptcy Law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of (Won)500 million of unsecured debt and/or (Won)1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors. The aggregate amount of loans (including credit card receivables) of Woori Bank, Kwangju Bank and Kyongnam Bank which became subject to such court-supervised debt restructuring in 2011 was (Won)250 billion. In 2011, Woori Bank, Kwangju Bank and Kyongnam Bank recovered (Won)29 billion in the aggregate with respect to their loans subject to such court-supervised debt restructuring.

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

In March 2009, the Financial Services Commission requested Korean banks, including Woori Bank, Kyongnam Bank and Kwangju Bank, to establish a pre-workout program, including a credit counseling and recovery service, for retail borrowers with outstanding short-term debt. The pre-workout program has been in operation since April 2009 and, following successive extensions by the Korean government, is expected to continue until April 2013. Under the pre-workout program, maturity extensions and/or interest rate adjustments are provided for retail borrowers with total loans of less than (Won)500 million who are in arrears on their payments for more than 30 days but less than 90 days. The aggregate amount of loans (including credit card receivables) made by Woori Bank, Kyongnam Bank and Kwangju Bank which became subject to the pre-workout program in 2011 was (Won)29 billion. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio We may experience increases in delinquencies in our consumer loan and credit card portfolios.

Securities Investment Portfolio

Investment Policy

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

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

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

Our investments in debt securities include primarily bonds issued by government-related entities, as well as corporate bonds that have been guaranteed by banks (other than merchant banks), government-related funds or privately capitalized funds that we consider to have a low credit risk.

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Our securities investments are subject to various guidelines, including limitations prescribed under the Financial Holding Company Act and the Bank Act. Under these regulations, a bank holding company may not own (i) more than 5% of the total issued and outstanding shares of another finance-related company, (ii) any shares of its affiliates, other than its direct or indirect subsidiaries or (iii) any shares of a non-finance-related company. In addition, each of our subsidiaries must limit its investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and Korean government bonds) to 60% of the sum of its total Tier I and Tier II capital amount (less any capital deductions). Each of our subsidiaries is also generally prohibited from purchasing or retaining permanent ownership interests in equity securities of other banking institutions or acquiring more than 15% of the shares with voting rights issued by any other corporation. Each of our banking subsidiaries and its respective trust accounts are prohibited from acquiring the shares of any of our major shareholders, as defined in Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer and Major Shareholder, in excess of an amount determined by enforcement decree within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

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

The following tables sets out the classifications and accounting treatment of the five primary categories based on which we generally manage our holdings of securities under IFRS:

Category	Classification	Accounting Treatment
Financial assets held for trading	Financial assets that are acquired principally for sale in the near term; form part of a portfolio of financial instruments that are managed together and for which there is evidence of short-term profits; or are derivatives without a qualifying hedge relationship.	Recognized at fair value with transaction costs being recognized in net income and subsequently measured at fair value. Gains and losses are recognized in net income as they arise.
Financial assets designated as at fair value through profit and loss	Financial assets for which such designation eliminates or significantly reduces a measurement or recognition inconsistency; applies to a group of financial assets, financial liabilities or both, which are managed and the performance of which is evaluated on a fair value basis; or financial assets related to a contract containing one or more embedded derivatives that would be required to be separated from the host contract.	Recognized at fair value with transaction costs being recognized in net income and subsequently measured at fair value. Gains and losses are recognized in net income as they arise.

Category	Classification	Accounting Treatment
Available-for-sale financial assets	Non-derivative financial assets that are not classified as held-to-maturity, held-for-trading, designated as at fair value through profit and loss or loans and receivables. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and classified as available-for-sale financial assets.	Initially recognized at fair value plus directly related transaction costs and subsequently measured at fair value. Impairment losses in monetary and non-monetary available-for-sale financial assets and dividends on non-monetary financial assets are recognized in net income. Interest revenue on monetary financial assets is calculated using the effective interest method. Other changes in the fair value of available-for-sale financial assets and any related tax are reported in a separate component of owners equity until disposal, when the cumulative gain or loss is recognized in net income.
Held-to-maturity financial assets	Non-derivative financial assets with fixed or determinable payments and fixed maturity dates that we have the positive intent and ability to hold to maturity.	Initially recognized at fair value plus directly related transaction costs and subsequently measured at amortized cost using the effective interest method less any impairment losses.
Investments in jointly controlled entities and associates		
	Investments in jointly controlled entities refer to equity investments in entities with respect to which we have contractual arrangements with other parties to undertake economic activities subject to joint control.	Valued using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.
	Investments in associates refer to equity investments in entities over which we have significant influence but do not have direct or indirect control.	Any excess of the cost of acquisition over our share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity or associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of our share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the acquisition cost is recognized immediately in net income.

See Item 5A. Operating Results Critical Accounting Policies Valuation of Financial Assets and Liabilities.

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The following table sets out the definitions of the primary categories of securities we held under U.S. GAAP:

Category	Classification	Accounting Treatment
Trading securities	Securities held in anticipation of short-term market movements, which have been acquired for the purpose of short-term capital gains.	Marked-to-market and reported at fair value. We record unrealized gains and losses in income. Trading securities held by our overseas branches are stated at market value unless otherwise required by regulatory authorities in countries where the overseas branches are located.
Available-for-sale securities	Securities not classified as held to maturity or trading or other investments. Securities are classified as available-for-sale when we intend to hold them for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs.	Marked-to-market and reported at fair value, with unrealized gains and losses being recorded in other comprehensive income as unrealized gain or loss on valuation of investment securities. If the fair value of available-for-sale securities declines below their cost and the decline is deemed other-than-temporary, the difference in value is recorded as a realized loss on our income statement. For impaired available-for-sale debt securities that we do not intend to sell and we believe that it is more-likely-than-not that we will not be required to sell before recovery of the amortized cost basis, we consider both qualitative and quantitative valuation factors to evaluate whether we expect to recover the entire amortized cost basis of such securities and the amount of the other-than-temporary impairment (or OTTI) is separated into an amount representing the credit loss, which is recognized in earnings, and the amount related to all other factors, which is recognized in other comprehensive income. For marketable equity securities, OTTI evaluations focus on whether evidence supporting recovery of the unrealized loss within a timeframe consistent with temporary impairment exists. Unrealized losses for OTTI on equity securities are recognized in current period earnings.

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

Book Value and Fair Value

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

	As of December 31,			
	2010		2011	
	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)			
Financial assets at fair value through profit and loss				
Financial assets held for trading				
Equity securities	(Won) 672	(Won) 672	(Won) 608	(Won) 608
Beneficiary certificates	229	229	325	325
CMA securities	1,619	1,619	2,466	2,466
Others	656	656	1,651	1,651
Debt securities				
Korean treasury and government agencies	3,495	3,495	1,194	1,194
Financial institutions	3,622	3,622	5,194	5,194
Corporate	2,813	2,813	5,395	5,395
Commercial paper	3,395	3,395	2,973	2,973
Total Financial assets held for trading	16,501	16,501	19,806	19,806

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	As of December 31,			
	2010		2011	
	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)			
Financial assets designated at fair value through profit or loss				
Equity-linked securities	302	302	654	654
Asset backed securities	400	400	410	410
Equity securities	10	10	12	12
Total Financial assets at designated fair value through profit or loss	712	712	1,076	1,076
Available-for-sale financial assets				
Equity securities	3,236	3,236	2,752	2,752
Beneficiary certificates	5,196	5,196	3,789	3,789
Others(1)	1,226	1,226	219	219
Debt securities				
Korean treasury and government agencies	2,720	2,720	2,787	2,787
Financial institutions	5,897	5,897	5,210	5,210
Corporate	2,690	2,690	4,183	4,183
Asset backed securities	749	749	599	599
Foreign currency bonds	284	284	133	133
Total Available-for-sale	21,998	21,998	19,672	19,672
Held-to-maturity financial assets				
Debt securities				
Korean treasury and government agencies	6,348	6,477	7,235	7,432
Financial institutions	7,832	7,889	5,859	5,880
Corporate	5,491	5,567	6,828	6,898
Foreign currency bonds	143	143	103	103
Securities loaned	71	72	11	11
Total Held-to-maturity	19,885	20,148	20,036	20,324
Total securities	(Won) 59,096	(Won) 59,359	(Won) 60,590	(Won) 60,878

(1) Include CMA securities.

The following table sets out the book value and fair value of securities in our securities portfolio as of December 31, 2009 under U.S. GAAP:

	As of December 31, 2009	
	Book Value	Fair Value
	(in billions of Won)	
Trading securities		
Equity securities	(Won) 379	(Won) 379
Beneficiary certificates	45	45
Debt securities		
Korean treasury securities and government agency securities	3,380	3,380
Debt securities issued by financial institutions	890	890
Corporate debt securities	4,667	4,667
Asset backed securities	728	728

Total Trading	10,089	10,089
Available-for-sale securities		
Equity securities	368	368
Beneficiary certificates	1,206	1,206

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	As of December 31, 2009	
	Book Value	Fair Value
	(in billions of Won)	
Debt securities		
Korean treasury securities and government agency securities	4,348	4,348
Debt securities issued by financial institutions	2,265	2,265
Corporate debt securities	6,960	6,960
Asset backed securities	838	838
Debt securities issued by foreign governments	74	74
Total Available-for-sale	16,059	16,059
Held-to-maturity securities		
Debt securities		
Korean treasury securities and government agency securities	11,502	11,520
Debt securities issued by financial institutions	2,503	2,515
Corporate debt securities	1,358	1,369
Asset backed securities	491	497
Debt securities issued by foreign governments	120	120
Total Held-to-maturity	15,974	16,021
Total securities	(Won) 42,122	(Won) 42,169

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Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2011:

	As of December 31, 2011									
	Within 1 year		Over 1 but Within 5 years		Over 5 but Within 10 years		Over 10 years		Total	
	(in billions of Won)									
	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)	Amount	Weighted Average Yield(1)
Financial assets at fair value through profit or loss:										
Financial assets held for trading										
Korean treasury and government agencies	(Won) 151	3.41%	(Won) 726	3.47%	(Won) 317	4.39%	(Won) 0	4.84%	1,194	3.71%
Financial institutions	2,609	3.59%	2,584	3.81%			1	4.49%	5,194	3.70%
Corporate	2,849	4.19%	2,174	4.35%	360	3.84%	12	4.85%	5,395	4.23%
Commercial paper	2,973	3.91%							2,973	3.91%
Total	8,582	3.90%	5,484	3.98%	677	4.10%	13	4.81%	14,756	3.94%
Financial assets designated at fair value through profit or loss										
Asset backed securities	51	6.10%	49	1.84%			310	5.29%	410	4.98%
Available-for-sale financial assets										
Korean treasury and government agencies	449	4.17%	2,222	4.37%	103	4.69%	13	3.95%	2,787	4.34%
Financial institutions	3,054	3.66%	2,156	4.01%					5,210	3.81%
Corporate	1,516	4.18%	2,505	4.20%	162	3.62%			4,183	4.17%
Asset backed securities	79	7.65%	520	3.07%					599	3.68%
Foreign currency bonds	81	2.40%	46	1.61%	2	2.48%	4	2.93%	133	2.14%
Total	5,179	3.90%	7,449	4.10%	267	4.02%	17	3.71%	12,912	4.02%
Held-to-maturity financial assets										
Korean treasury and government agencies	1,409	3.78%	5,789	4.53%	37	5.15%			7,235	4.39%
Financial institutions	5,009	3.83%	795	4.53%	20	6.35%	35	7.33%	5,859	3.96%
Corporate	1,549	4.56%	4,319	4.42%	70	4.49%	890	5.32%	6,828	4.57%
Foreign currency bonds	62	2.50%	39	10.77%			2	5.91%	103	5.71%
Securities loaned			11	4.29%					11	4.29%
Total	8,029	3.95%	10,953	4.51%	127	4.97%	927	5.40%	20,036	4.33%

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

Risk Concentrations

As of December 31, 2011, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our owners equity at such date. As of December 31, 2011, our owners equity was (Won)22,073 billion.

	As of December 31, 2011	
	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
Korean government	(Won) 10,724	(Won) 10,827
The Bank of Korea	11,739	11,742
Total	(Won) 22,463	(Won) 22,569

The Bank of Korea is a Korean government entity.

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Funding

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

Customer deposits are our principal funding source. Customer deposits accounted for 73.0% of our total funding as of December 31, 2010 and 73.7% of our total funding as of December 31, 2011, in each case under IFRS. As of December 31, 2009, customer deposits accounted for 73.5% of our total funding under U.S. GAAP.

We also acquire funding through the following sources:

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

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

- the issuance of hybrid securities, including bond-type hybrid securities.

As of December 31, 2011, approximately 88.5% of our total funding was denominated in Won.

Deposits

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

	For the year ended December 31,			
	2010		2011	
	Average Balance(1)	Average Rate Paid	Average Balance(1)	Average Rate Paid
	(in billions of Won, except percentages)			
Demand deposits	7,407	0.28%	10,728	0.26%
Time deposits and savings deposits	150,317	2.87	160,952	3.00
Certificates of deposit	8,458	4.31	2,746	4.10
Other deposits(2)	17,583	1.54	18,217	1.77
Average total deposits	(Won) 183,765	2.71%	(Won) 192,643	2.75%

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

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

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The following table shows the average balances of our deposits and the average rates paid on our deposits under U.S. GAAP for 2009:

	For the year ended December 31, 2009	
	Average Balance[(1)]	Average Rate Paid
	(in billions of Won, except percentages)	
Demand deposits:		
Non-interest-bearing	(Won) 4,579	
Interest-bearing	27,652	0.28%
Time deposits		
Certificates	15,070	5.14
Other time deposits	111,828	3.77
Savings deposits	21,423	1.88
Mutual installment deposits	257	3.32
Average total deposits	(Won) 180,809	3.11%

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

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

Maturities of Certificates of Deposit and Other Time Deposits

The following table presents, as of December 31, 2011, the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had fixed maturities in excess of (Won)100 million:

	As of December 31, 2011			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	(Won) 436	(Won) 39,343	(Won) 3	(Won) 39,782
After three but within six months	403	15,221	1	15,625
After six but within 12 months	553	43,852	1	44,406
After 12 months	2,663	2,454	4	5,121
Total	(Won) 4,055	(Won) 100,870	(Won) 9	(Won) 104,934

Long-Term Debt

The aggregate amount of contractual maturities of all long-term debt, which consist of debentures and borrowings with maturities exceeding one year, as of December 31, 2011 was as follows:

	Amount (in billions of Won)
Due in 2012	(Won) 12,604
Due in 2013	7,935

Due in 2014		6,052
Due in 2015		5,240
Due in 2016		2,442
Thereafter		5,605
Gross long-term debt		39,878
Less: discount		48
Total long-term debt, net	(Won)	39,830

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Short-Term Borrowings

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

	As of and for the year ended December 31,	
	2010	2011
	(in billions of Won, except percentages)	
Call money		
Year-end balance	(Won) 6,073	(Won) 4,393
Average balance[1]	4,908	4,825
Maximum balance	7,869	5,815
Average interest rate[2]	2.60%	2.50%
Year-end interest rate	0.07~6.20%	0.05~6.20%
Borrowings from the Bank of Korea[3]		
Year-end balance	(Won) 1,223	(Won) 1,089
Average balance[1]	1,407	1,151
Maximum balance	1,706	1,286
Average interest rate[2]	1.30%	1.50%
Year-end interest rate	1.25%	1.50%
Other short-term borrowings[4]		
Year-end balance	(Won) 12,160	(Won) 14,282
Average balance[1]	12,506	14,433
Maximum balance	14,368	15,664
Average interest rate[2]	1.69%	1.12%
Year-end interest rate	0.51~6.80%	0.10~13.5%

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

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

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

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

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The following table presents, for the period indicated, information regarding our short-term borrowings, with an original maturity of one year or less, under U.S. GAAP:

		As of and for the Year Ended December 31, 2009 (in billions of Won, except percentages)
Call money		
Year-end balance	(Won)	5,687
Average balance[1]		4,576
Maximum balance		8,244
Average interest rate[2]		1.90%
Year-end interest rate		0.68%~3.64%
Borrowings from the Bank of Korea[3]		
Year-end balance	(Won)	1,560
Average balance[1]		1,376
Maximum balance		1,803
Average interest rate[2]		1.36%
Year-end interest rate		1.25%
Other short-term borrowings[4]		
Year-end balance	(Won)	11,275
Average balance[1]		14,002
Maximum balance		24,693
Average interest rate[2]		3.21%
Year-end interest rate		1.27%~10.50%

(1) Average balances are based on daily balances for Woori Bank, Kyongnam Bank and Kwangju Bank, and on quarterly balances for all of our other subsidiaries and our special purpose companies.
(2) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
(3) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
(4) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured.

Supervision and Regulation

Principal Regulations Applicable to Financial Holding Companies

General

The Financial Holding Company Act (Law No. 6274, October 23, 2000), last amended on June 8, 2010, regulates Korean financial holding companies and their subsidiaries. The entities that regulate and supervise Korean financial holding companies and their subsidiaries are the Financial Services Commission and the Financial Supervisory Service.

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

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

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

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

- controlling the management of its subsidiaries;
- financially supporting its direct and indirect subsidiaries;
- raising capital necessary for investment in its subsidiaries or providing financial support to its direct and indirect subsidiaries;
- supporting the business of its direct and indirect subsidiaries for the joint development and marketing of new products;
- supporting the operations of its direct and indirect subsidiaries by providing access to data processing, legal and accounting resources; and
- any other businesses exempted from authorization, permission or approval under the applicable laws and regulations.

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

Capital Adequacy

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

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

Liquidity

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

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

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

maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days as a percentage of total foreign currency assets of not less than 0% on a non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets);

maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month as a percentage of total foreign currency assets of not less than negative 10% on a non-consolidated basis (except that such requirement is not applicable to a financial holding company whose foreign currency liabilities constitute less than 1% of its total assets); and

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

Financial Exposure to Any Individual Customer and Major Shareholder

Subject to certain exceptions, the aggregate credit (as defined in the Financial Holding Company Act, the Bank Act, the Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a financial holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, saving banks or specialized credit financial business companies (which we refer to as Financial Holding Company Total Credit) to a single group of companies that belong to the same conglomerate as defined in the Monopoly Regulations and Fair Trade Act will not be permitted to exceed 25% of net aggregate equity capital (as defined below).

Net aggregate equity capital is defined as the sum of:

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

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

(3) in case of a merchant bank, the capital amount as defined in Article 342(1) of the Financial Investment Services and Capital Markets Act;

(4) in case of a financial investment company, the capital amount as defined in Article 37(3) of the Enforcement Decree of the Financial Investment Services and Capital Markets Act;

(5) in case of an insurance company, the capital amount as defined in Article 2, Item 15 of the Insurance Business Act;

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

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

less the sum of:

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

(2) the amount of shares that are cross-held by each direct and indirect subsidiary that is a bank, merchant bank, financial investment company, insurance company, savings bank or specialized credit financial business company; and

(3) the amount of shares of a financial holding company held by such direct and indirect subsidiaries that are banks, merchant banks or financial investment companies, insurance companies, savings banks or specialized credit financial business companies.

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

Further, the total sum of credits (as defined in the Financial Holding Company Act, the Bank Act, the Financial Investment Services and Capital Markets Act, the Insurance Business Act, the Mutual Savings Bank Act and the Specialized Credit Financial Business Act, respectively) of a bank holding company and its direct and indirect subsidiaries that are banks, merchant banks, financial investment companies, insurance companies, savings banks or specialized credit financial business companies, as applicable (Bank Holding Company Total Credit) extended to a major shareholder (as defined below) (together with the persons who have a special relationship with that major shareholder) will not be permitted to exceed the lesser of (x) 25% of the net aggregate equity capital and (y) the amount of the equity capital of the bank holding company multiplied by the shareholding ratio of the major shareholder, except for certain cases.

Major shareholder is defined as:

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

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

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

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

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

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

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

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

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

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

Disclosure of Management Performance

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

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

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

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

(4) occurrence of any non-performing assets or financial incident that may have a material adverse effect, or any other event as prescribed in the applicable regulations.

Restrictions on Shareholdings in Other Companies

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

Restrictions on Shareholdings by Direct and Indirect Subsidiaries

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

- financial institutions established in foreign jurisdictions;

- certain financial institutions which are engaged in any business that the direct subsidiary may conduct without any licenses or permits;

- certain financial institutions whose business is related to the business of the direct subsidiary as described by the Enforcement Decree of the Financial Holding Company Act (for example, a bank subsidiary may control only credit information companies, credit card companies and financial investment companies with a dealing, brokerage, collective investment, investment advice, discretionary investment management and/or trust license);

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

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

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

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

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

Restriction on Ownership of a Financial Holding Company

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

Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank holding company or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank holding company and participate in the management of such company in the manner prescribed in the Enforcement Decree of the Financial Holding Company Act. If non-financial business group companies hold voting stock of a bank holding company in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of non-financial business group companies under the Financial Holding Company Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit.

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Furthermore, in the case where a person (including Korean and foreign investors, but excluding certain persons prescribed under the Enforcement Decree of the Financial Holding Company Act) (i) acquires in excess of 4% of the total issued and outstanding voting shares of any financial holding company (other than a financial holding company controlling only regional banks), (ii) becomes the largest shareholder of such financial holding company in which such person has acquired in excess of 4% of the total issued and outstanding voting shares, or (iii) changes its shareholding in such financial holding company, in which it has acquired in excess of 4% of the total issued and outstanding voting shares, by 1% or more of the total issued and outstanding voting shares of such financial holding company, such person must file a report on such change with the Financial Services Commission within five days thereafter.

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

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

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

(3) any mutual fund where a same shareholder group identified in (1) or (2) above owns more than 9% of the total issued and outstanding shares of that mutual fund.

Sharing of Customer Information among Financial Holding Company and its Subsidiaries

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

Principal Regulations Applicable to Banks

Capital Adequacy

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

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

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

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

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

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

Liquidity

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

- maintain a Won liquidity ratio (defined as Won assets due within one month, including marketable securities, divided by Won liabilities due within one month) of not less than 100% and to make monthly reports to the Financial Supervisory Service;
- maintain a foreign currency liquidity ratio (defined as foreign currency liquid assets due within three months divided by foreign currency liabilities due within three months) of not less than 85%;
- maintain a ratio of foreign currency liquid assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than negative 3%;
- maintain a ratio of foreign currency liquid assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and
- submit monthly reports with respect to the maintenance of these ratios.

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

- 7% of average balances for Won currency demand deposits outstanding;
- 0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding; and

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

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

Furthermore, pursuant to the Regulation on Supervision of Banking Business, foreign exchange agencies, including our subsidiary banks, will be required to hold foreign currency safe assets in an aggregate amount that is not less than the lower of (i) the product of (x) its total foreign currency-denominated debt maturing in one year or less multiplied by 2/12 and (y) an amount equal to one minus the lowest rollover ratio and (ii) 2% of its total foreign currency-denominated assets as shown in the balance sheet for the immediately preceding quarter. The lowest rollover ratio of a foreign exchange agency means the ratio of (A) its total debt with a maturity of one year or less (excluding overnight money) incurred in a particular month to (B) its total debt with maturity of one year or less (excluding overnight money) payable in that particular month, and is calculated by taking the lowest three month average from a period to be designated by the governor of the Financial Supervisory Service. Under the new regulation, foreign currency debt includes financial bonds, borrowings, call monies and repurchase selling denominated in foreign currencies and such other similar debt instruments denominated in a foreign currency as designated by the governor of the Financial Supervisory Service. Foreign currency safe assets are defined as cash denominated in foreign currency, deposits denominated in foreign currency with a central bank or financial institutions rated A or above, bonds issued or guaranteed by a government or central bank rated A or above or corporate bonds issued or guaranteed by corporations rated A or above. Accordingly, we may be required to acquire further foreign currency safe assets. In addition, the new regulation also has increased the minimum mid- to long-term foreign exchange funding ratio applicable to foreign exchange agencies, including us, from 80% to 100%. Mid-to long term foreign exchange funding ratio refers to the ratio of (1) the total outstanding amount of foreign exchange borrowing with a maturity of more than one year to (2) the total outstanding amount of foreign exchange lending with a maturity of one year or more.

Financial Exposure to Any Individual Customer and Major Shareholder

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

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

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

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

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

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans made by registered banks in Korea may not exceed 39% per annum. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee of the Bank of Korea. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank s interest expense.

Lending to Small- and Medium-Sized Enterprises

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

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

Disclosure of Management Performance

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

- financial condition and profit and loss of the bank and its direct and indirect subsidiaries;
- fund raising by the bank and the appropriation of such funds;
- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and
- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act, occurrence of any of the following events listed below or any other event as prescribed by the applicable regulations:

(i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated as the sum of substandard credits, doubtful credits and estimated loss credits), unless the loan exposure to that group is not more than (Won)4 billion;

(ii) the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions), unless the bank has lost or expects to lose not more than (Won)1 billion as a result of that financial incident, or the governor of the Financial Supervisory

Service has made a public announcement regarding the incident; and

(iii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than (Won)1 billion.

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Restrictions on Lending

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

- loans directly or indirectly secured by a pledge of a bank s own shares;

- loans directly or indirectly to enable a natural or juridical person to buy the bank s own shares;

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

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

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

Recent Regulations Relating to Retail Household Loans

The Financial Services Commission implemented a number of changes in recent years to the mechanisms by which a bank evaluates and reports its retail household loan balances and has proposed implementing further changes. Due to a rapid increase in the number of loans secured by homes and other forms of housing, the Financial Services Commission and the Financial Supervisory Service have implemented regulations designed to curtail extension of new or refinanced loans secured by housing, including the following:

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

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

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

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

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

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

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

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

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

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

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

Restrictions on Investments in Property

A bank may not invest in securities set forth below in excess of 60% of the sum of the bank s Tier I and Tier II capital (less any capital deductions):

debt securities (within the meaning of paragraph (3) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years, but excluding government bonds, monetary stabilization bonds issued by the Bank of Korea and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Law on the Improvement of the Structure of the Financial Industry;

equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Law on the Improvement of the Structure of the Financial Industry;

derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years; and

beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years.

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

Restrictions on Shareholdings in Other Companies

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

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

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

In the above exceptional cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed 15% of the sum of Tier I and Tier II capital (less any capital deductions), or 30% of the sum of Tier I and Tier II capital (less any capital deductions) if the bank meets certain management conditions as set forth in the applicable rules adopted by the Financial Services Commission.

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

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 9% of that bank s outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 9% limit, in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. Non-financial business group companies are required to obtain approval from the Financial Services Commission in order to (i) become the largest shareholder of a bank or (ii) acquire 4% or more of the issued and outstanding shares of voting stock of a bank and participate in the management of a bank in the manner prescribed in the Enforcement Decree of the Bank Act. If non-financial business group companies hold voting stock of a bank in excess of the foregoing limits as a result of unavoidable circumstances, such as sales by other stockholders of their shareholding, such non-financial business group companies are required to obtain approval from the Financial Services Commission to hold the portion of shares of the bank that exceeds the limit, dispose of such portion or take measures so that they no longer fall under the definition of non-financial business group companies under the Bank Act. Non-compliance with such requirement will prohibit non-financial business group companies from exercising their voting rights of the shares that exceed the limit and prompt the issuance of an order by the Financial Services Commission directing such non-financial business group companies to dispose of their shares that exceed the limit. In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares, and in excess of 10%, 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis. The rate is determined under the Enforcement Decree to the Depositor Protection Act, and may not exceed 0.5% of the bank s insurable deposits in any given year. The current insurance premium is 0.02% of insurable deposits for each quarter. If the KDIC makes a payment on an insured amount, it will acquire the depositors claims with respect to that payment amount. The KDIC insures a maximum of (Won)50 million for deposits and interest, regardless of when the deposits were made and the size of the deposits. Certain banks governed by the Bank Act, including our commercial banking subsidiaries, are also required by the Deposit Insurance Act to pay a special contribution of 0.025% of average deposits for each quarter as repayment of the governmental funding provided to such banks in the wake of the financial crisis in Korea in the late 1990s. The Depositor Protection Act requires such special contribution to be paid until 2027.

Laws and Regulations Governing Other Business Activities

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

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Trust Business

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

- under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and

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

The bank must make a special reserve of 25% or more of fees and commissions from each unspecified money trust account for which a bank guarantees the principal amount and a minimum yield until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed.

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

Credit Card Business

General

In order to enter the credit card business, a bank must register with the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on October 8, 2011, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. A registered bank engaging in the credit card business is regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

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

Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a registered bank engaging in the credit card business must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume.

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

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

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

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

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

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

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

- maximum limits for cash advances on credit cards;

- use restrictions on debit cards with respect to per day or per transaction usage;

- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards; and

- other matters prescribed by the Specialized Credit Financial Business Act and the Enforcement Decree thereto.

Issuance of New Cards and Solicitation of New Card Holders

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

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

- persons whose capability to pay bills as they come due has been verified using standards established by the registered bank engaging in the credit card business; and in the case of minors who are at least 18 years and younger than 20 years, persons who submit a guardian s consent along with documents evidencing income, such as an employment certificate or a tax certificate.

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

providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of credit cards with annual fees that are less than the average of the annual fees charged by the major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection with issuing a credit card;

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

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

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

soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

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

exert violence or threaten violence;

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

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

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

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

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

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on March 31, 2010. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

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

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

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

General

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

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

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

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

Regulations on Financial Soundness

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

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

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

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

Total risk = market risk + credit risk + operational risk

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

Other Provisions on Financial Soundness

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

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

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

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

Business Conduct Rules

Pursuant to the Financial Investment Services and Capital Markets Act, financial investment companies are required to comply with certain business conduct rules. These rules impose greater responsibilities on financial investment companies, strictly banning certain unfair practices and ensuring that the potential investors solicited by financial investment companies are suitable.

Disclosure and Reports

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

its financial condition, including profit and loss;

any sanctions levied on it under the Financial Investment Services and Capital Markets Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

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

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

Financial Investment Services and Capital Markets Act

General

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

Consolidation of Capital Markets-Related Laws

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

dealing, trading and underwriting of financial investment products (as defined below);

brokerage of financial investment products;

establishment of collective investment schemes and the management thereof;

investment advice;

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discretionary investment management; and

trusts (together with the five businesses set forth above, the Financial Investment Businesses).

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

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

Comprehensive Definition of Financial Investment Products

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

New License System and the Conversion of Existing Licenses

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

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

Expanded Business Scope of Financial Investment Companies

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

Improvement in Investor Protection Mechanism

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

Other Changes to Securities / Fund Regulations

The Financial Investment Services and Capital Markets Act changed various securities regulations including those relating to public disclosure, insider trading and proxy contests, which were previously governed by the Securities and Exchange Act. For example, the 5% and 10% reporting obligations under the Securities and Exchange Act have become more stringent. The Indirect Investment and Asset Management Business Act strictly limited the kind of vehicles that could be utilized under a collective investment scheme, restricting the range of vehicles to trusts and corporations, and the type of funds that can be used for investments. However, under the Financial Investment Services and Capital Markets Act, these restrictions have been significantly liberalized, permitting all vehicles that may be created under Korean law, such as limited liability companies or partnerships, to be used for the purpose of collective investments and investment funds to be more flexible as to their investments.

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Item 4C. Organizational Structure

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

(1) Woori Aviva Life Insurance, in which we acquired a 51.0% interest in April 2008 and in respect of which we entered into a joint venture agreement with Aviva International Holdings Limited, is accounted for as part of our investments in jointly controlled entities and associates under IFRS. We currently hold a 51.6% interest in Woori Aviva Life Insurance.

(2) In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly owned subsidiary Woori FG Savings Bank, which was established in connection with such transaction.

Our largest subsidiary is Woori Bank, the assets of which represented approximately 72.9% of our total assets as of December 31, 2011. The following table identifies each of our major subsidiaries and their contributions to our total assets and net income as of and for the year ended December 31, 2011 (after allocating eliminations for consolidation, inter-segment transactions and certain differences in classification under our management reporting system for assets and net income in proportion to total assets and absolute net income, respectively):

	As of or for the year ended December 31, 2011		
	Total Assets [1]		
	Amount	% of Total	Net Income[2]
	(in billions of Won, except percentages)		
Subsidiary			
Woori Bank	(Won) 227,914	72.9%	(Won) 1,713
Kyongnam Bank	23,832	7.6	162
Kwangju Bank	16,947	5.4	113
Others	44,099	14.1	445
Total	(Won) 312,792	100.0%	(Won) 2,433

(1) After allocating eliminations of (Won)19,980 billion representing consolidation, inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of segment assets before eliminations to total assets before eliminations. See Note 5 of the notes to our consolidated financial statements.

(2) After allocating a loss of (Won)505 billion representing inter-segment transactions and certain differences in classification under our management reporting system. This amount has been allocated in proportion to the ratio of absolute segment net income to the sum of the absolute net income of all segments.

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

Woori Bank

Established in December 1998, Woori Bank (formerly known as Hanvit Bank) was formed as a result of the merger of two nationwide commercial banks, the Commercial Bank of Korea (established in 1899) and Hanil Bank (established in 1932). Woori Bank provides a wide range of banking and other financial services to large corporations, small- and medium-sized enterprises and individuals in Korea. As of December 31, 2011, Woori Bank was the second-largest commercial bank in Korea based upon total assets (including loans) and deposits. As of December 31, 2011, Woori Bank had approximately 17 million customers, with 942 branches nationwide.

Kyongnam Bank

Established in April 1970, Kyongnam Bank is a regional commercial bank that provides financial services in Changwon and Ulsan and other parts of the South Kyongsang province in southeastern Korea. Kyongnam Bank concentrates on consumer banking, as well as corporate banking for small- and medium-sized enterprises and, to a lesser extent, large corporate customers. As of December 31, 2011, Kyongnam Bank had approximately two million customers, with 156 branches throughout southeastern Korea and Seoul.

Kwangju Bank

Established in September 1968, Kwangju Bank is a regional commercial bank that provides financial services in Kwangju and southwestern Korea. Kwangju Bank concentrates on the consumer and small- and medium-sized enterprise banking sectors, offering various deposit and loan products to customers in those sectors and, to a lesser extent, large corporate customers. As of December 31, 2011, Kwangju Bank had approximately two million customers, with 147 branches throughout southwestern Korea and Seoul.

Other Subsidiaries

The following table provides summary information regarding our other significant consolidated subsidiaries (other than special purpose companies) as of or for the year ended December 31, 2011:

Subsidiary	Percentage of Ownership(1)	Total Assets	Stockholders Equity	Operating Revenue	Net Income
			(in millions of Won)		
Woori Asset Management Co., Ltd.	100.0%	80,020	62,846	32,111	1,462
Woori Private Equity Co., Ltd.	100.0%	1,575,969	70,333	382,597	(28,019)
Woori F&I Co., Ltd.	100.0%	1,371,031	256,688	172,100	43,145
Woori FG Savings Bank	100.0%	603,400	77,365	55,320	(32,352)
Woori FIS Co., Ltd	100.0%	264,215	25,822	287,856	(3,480)
Woori Financial Co., Ltd.	52.5%	3,161,794	272,054	334,453	51,702
Woori Investment & Securities Co., Ltd.	37.9%	21,535,058	3,672,607	3,910,525	197,781

(1) Including both direct and indirect ownership.

In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly owned subsidiary Woori FG Savings Bank, which was established in connection with such transaction.

Item 4D. Property, Plants and Equipment

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

Type of Facility/Building	Location	Area (square meters)
Woori Finance Holdings and Woori Bank registered office and corporate headquarters	203 Hoehyon-dong, 1-ga, Chung-gu, Seoul, Korea 100-792	97,222
Kyongnam Bank registered office and corporate headquarters	246-1 Seockcheon-dong, MasanHoiwon-gu, Changwon City, Kyongnam Province, Korea 630-010	29,457
Kwangju Bank registered office and corporate headquarters	7-12 Daein-dong, Dong-gu, Kwangju, Korea 501-030	47,007
Woori Investment & Securities registered office and corporate headquarters	23-4 Yeouido-dong, Yeongdeungpo-gu, Seoul, Korea 150-725	45,499
Woori FIS registered office and corporate headquarters	1585 Sangam-dong, Mapo-gu, Seoul, Korea 121-835	40,737

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As of December 31, 2011, we had a network of 1,245 banking branches in Korea. With respect to Woori Bank, approximately 258 of its branches are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Hong Kong, Russia and Indonesia and branches, agencies and representative offices in Asia, the United States and Europe. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us as of December 31, 2011 was (Won)3,134 billion.

Item 4.A. UNRESOLVED STAFF COMMENTS

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

Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Investments in jointly controlled entities and associates (companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in other investment assets.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally from the second half of 2008, have generally led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. In 2011, we recorded charge-offs of (Won)758 billion in respect of our Won-denominated loans to small- and medium-sized enterprises, compared to charge-offs of (Won)614 billion in 2010. In light of the difficult financial condition and liquidity position of small- and medium-sized enterprises in Korea since the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid growth in consumer loans, together with adverse economic conditions since the second half of 2008, have generally led to increasing delinquencies and a deterioration in asset quality. In 2011, we recorded charge-offs of (Won)89 billion and bad debt expenses of (Won)158 billion in respect of our consumer loan portfolio, compared to charge-offs of (Won)106 billion and bad debt expenses of (Won)130 billion in 2010. In June 2011, the Korean government announced a set of policy objectives to curtail the rapid growth of consumer lending by commercial banks, consumer finance companies and other financial institutions, as well as measures to encourage the increased use of fixed interest rates in consumer lending and to strengthen the protection of retail borrowers. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

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The Korean economy is closely tied to, and is affected by developments in, the global economy. During the second and third quarter of 2007, credit markets in the United States started to experience difficult conditions and volatility that in turn affected worldwide financial markets. In particular, in late July and early August 2007, market uncertainty in the U.S. sub-prime mortgage sector increased dramatically and further expanded to other markets such as those for leveraged finance, collateralized debt obligations and other structured products. In September and October 2008, liquidity and credit concerns and volatility in the global financial markets increased significantly with the bankruptcy or acquisition of, and government assistance to, several major U.S. and European financial institutions. These developments resulted in reduced liquidity, greater volatility, widening of credit spreads and a lack of price transparency in the United States and global financial markets. In response to such developments, legislators and financial regulators in the United States and other jurisdictions, including Korea, implemented a number of policy measures designed to add stability to the financial markets, including the provision of direct and indirect assistance to distressed financial institutions. In addition, in line with similar actions taken by monetary authorities in other countries, from the third quarter of 2008 to the first quarter of 2009, the Bank of Korea decreased its policy rate by a total of 325 basis points in order to address financial market instability and to help combat the slowdown of the domestic economy. However, while the rate of deterioration of the global economy has slowed since the second half of 2009, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in 2012 and beyond remain uncertain. For example, commencing in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the downgrading by Standard & Poor s Rating Services of the long-term sovereign credit rating of the United States to AA+ from AAA in August 2011 and the financial difficulties affecting many other governments worldwide, in particular in Greece, Spain, Italy and other countries in Europe. In addition, measures adopted by the international community to sanction Iran for its nuclear weapons program, as well as political instability in various countries in the Middle East and Northern Africa, including in Egypt, Tunisia, Libya, Syria and Yemen, have resulted in volatility and uncertainty in the global energy markets. These or other developments could potentially trigger another financial and economic crisis. Furthermore, while many governments worldwide are implementing exit strategies, in the form of reduced government spending or otherwise, with respect to the economic stimulus measures adopted in response to the global financial crisis, such strategies may, for reasons related to timing, magnitude or other factors, have the unintended consequence of prolonging or worsening global economic and financial difficulties. In light of the high level of interdependence of the global economy, any of the foregoing developments could have a material adverse effect on the Korean economy and financial markets, and in turn on our business, financial condition and results of operations.

We are also exposed to adverse changes and volatility in global and Korean financial markets as a result of our liabilities and assets denominated in foreign currencies and our holdings of trading and investment securities, including structured products (although we do not currently have material exposures to Greece, Spain, Italy and other countries in Europe which are facing financial difficulties, in the form of sovereign debt or otherwise). Since the second half of 2008, the value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely. See Item 3A. Selected Financial Data Exchange Rates. A depreciation of the Won will increase our cost in Won of servicing our foreign currency-denominated debt, while continued exchange rate volatility may also result in foreign exchange losses for us. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in securities prices, including the stock prices of Korean and foreign companies in which we hold an interest. Such volatility has resulted in and may lead to further trading and valuation losses on our trading and investment securities portfolio as well as impairment losses on our investments in jointly controlled entities and associates.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, increases in inflation rates, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2012 and for the foreseeable future remains uncertain.

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Acquisitions

In March 2011, we acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through our wholly owned subsidiary Woori FG Savings Bank, which was established in connection with such transaction, and injected (Won)110 billion of new capital into Woori FG Savings Bank.

New Basel Capital Accord

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

In addition, under Basel II, banks are permitted to follow either a standardized approach or an internal ratings-based approach with respect to calculating capital requirements. Woori Bank has voluntarily chosen to establish and follow an internal ratings-based approach, which is more stringent in terms of calculating risk sensitivity with respect to its capital requirements. Kyongnam Bank has also begun following an internal ratings-based approach from September 2011, while Kwangju bank plans to do the same in the near future. See Item 5B. Liquidity and Capital Resources Financial Condition Capital Adequacy.

In December 2009, the Basel Committee on Banking Supervision introduced a new set of measures to supplement Basel II which include, among others, a requirement for higher minimum capital, introduction of a leverage ratio as a supplementary measure to the capital adequacy ratio and flexible capital requirements for different phases of the economic cycle. Additional details regarding such new measures, including an additional capital conservation buffer and countercyclical capital buffer, liquidity coverage ratio and other supplemental measures, were announced by the Group of Governors and Heads of Supervision of the Basel Committee on Banking Supervision in September 2010. After further impact assessment and observation periods, the Basel Committee on Banking Supervision is expected to begin implementing the new set of measures, referred to as Basel III, from 2013. In Korea, Basel III is expected to be implemented in stages from 2013 to 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including our commercial banking subsidiaries.

Changes in Securities Values, Exchange Rates and Interest Rates

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

June 30, 2007	Dec. 31, 2007	June 30, 2008	Dec. 31, 2008	June 30, 2009	Dec. 31, 2009	June 30, 2010	Dec. 31, 2010	June 30, 2011	Dec 20
1,743.60	1,897.13	1,674.92	1,124.47	1,390.07	1,682.77	1,698.29	2,051.0	2,100.69	
(Won) 922.6	(Won) 935.8	(Won) 1,046.8	(Won) 1,262.00	(Won) 1,273.5	(Won) 1,163.7	(Won) 1,273.5	(Won) 1,163.7	(Won) 1,066.3	(Won)
5.6%	6.9%	6.9%	8.1%	5.6%	5.7%	5.0%	4.3%	3.8%	
5.3%	5.7%	5.8%	3.4%	4.2%	4.4%	3.9%	3.4%	3.4%	

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

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Critical Accounting Policies

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

Impairment of Loans and Provisions for Credit Losses

We evaluate our loans and receivables portfolio for impairment on an ongoing basis. We have established provisions for credit losses, which are available to absorb probable losses that have been incurred in our loans and receivables portfolio as of the date of the statement of financial position. If we believe that additions or changes to the provisions for credit losses are required, we record bad debt expenses (as part of our impairment loss for credit loss), which are treated as charges against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the provisions for credit losses.

Our accounting policies for losses arising from the impairment of loans and receivables and provisions for credit loss are described in Notes 2-(9)-6) and 3-(4) of the notes to our consolidated financial statements. We base the level of our provisions for credit losses on an evaluation of the risk characteristics of our loan portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions.

Provisions for credit losses represent our management s best estimate of losses incurred in the loans and receivables portfolio as of the date of the statement of financial position. Our management is required to exercise judgment in making assumptions and estimates when calculating the provisions for credit losses on both individually and collectively assessed loans and advances.

The determination of the provisions required for loans and receivables that are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as economic conditions, the financial performance of the counterparty and the value of any collateral held for which there may not be a readily accessible market. Once we have identified loans and receivables as impaired, we generally value them based on the present value of expected future cash flows discounted at the original effective interest rate of the applicable loan or receivable and compare such present value against the carrying amount of such loan or receivable, which amount is subject to various estimates by our management such as the operating cash flow of the borrower, net realizable value of any collateral held and the timing of anticipated receipts. The actual amount of the future cash flows and their timing may differ from the estimates used by our management and consequently may cause actual losses to differ from the reported allowances.

The allowance for portfolios of smaller-balance homogenous loans and receivables, such as those to individuals and small business customers, and for those loans which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective allowance is calculated on a portfolio basis using statistical methodology based on our historical loss experience, which incorporates numerous estimates and judgments. We perform a regular review of the models and underlying data and assumptions.

Our consolidated financial statements for the year ended December 31, 2011 included a total provision for credit losses of (Won)3,759 billion as of that date. Our total loan charge-offs, net of recoveries, amounted to (Won)2,264 billion and we recorded bad debt expenses of (Won)2,085 billion in 2011.

We believe that the accounting estimates related to impairment of loans and receivables and provisions for credit losses are a critical accounting policy because: (1) they are highly susceptible to change from period to period because they require us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated losses on loans and receivables (as reflected in our provisions for credit losses) and actual losses on loans and receivables could require us to take additional bad debt expenses which, if significant, could have a material impact on our profit. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

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Valuation of Financial Assets and Liabilities

Our accounting policy for determining the fair value of financial assets and liabilities is described in Notes 2-(9)-5), 3-(3) and 11 of the notes to our consolidated financial statements.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial asset or liability is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and, as such, the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Notes 2-(9)-5) and 11 of the notes to our consolidated financial statements. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.

- Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.

- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.

- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions are intended to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Our consolidated financial statements for the year ended December 31, 2011 included financial assets measured at fair value using a valuation technique of (Won)40,147 billion, representing 89.8% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of (Won)9,041 billion, representing 93.6% of total financial liabilities measured at fair value. As used herein, the fair value using a valuation technique means the fair value at Level 2 and Level 3 in the fair value hierarchy.

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

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Deferred Tax Assets

Our accounting policy for the recognition of deferred tax assets is described in Notes 2-(22) and 3-(2) of the notes to our consolidated financial statements.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profit will be available against which those deductible temporary differences, unused tax losses or unused tax credits can be utilized. This assessment requires significant management judgment and assumptions. In determining the amount of deferred tax assets, we use forecasted operating results, which are based on historical financial performance, approved business plans, including a review of the eligible carry-forward periods, available tax planning opportunities and other relevant considerations.

Our consolidated financial statements for the year ended December 31, 2011 included deferred tax assets and liabilities of (Won)80 billion and (Won)260 billion, respectively, as of that date.

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

Goodwill

Our accounting policy for goodwill is described in Notes 2-(13), 3-(1) and 15-(3) of the notes to our consolidated financial statements.

Goodwill is recognized as the excess of (i) the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree over (ii) the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If the net amount of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree, such excess is recognized as a gain as of the acquisition date.

Goodwill is not depreciated and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in an associate or a jointly controlled entity is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or the jointly controlled entity.

The review of goodwill impairment reflects our management s best estimate of the certain factors. For example:

The future cash flows of the cash generating units, or CGUs, are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they necessarily and appropriately reflect our management s view of future business prospects at the time of the assessment. See Note 15 of the notes to our consolidated financial statements for a list of our CGUs for impairment testing.

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The rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond our control and therefore require the exercise of significant judgment and are consequently subject to uncertainty.

A decline in a CGU s expected cash flows or an increase in its cost of capital reduces the CGU s estimated recoverable amount. If this is lower than the carrying value of the CGU, a charge for impairment of goodwill is recognized in the statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such market conditions, our management retests goodwill for impairment more frequently than once a year to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management s best estimate of future business prospects.

Our consolidated financial statements for the year ended December 31, 2011 included the value of goodwill of (Won)108 billion as of that date, including the value of goodwill of (Won)63 billion, (Won)39 billion and (Won)6 billion, related to Woori Financial, Woori FG Savings Bank and others, respectively. Also, during 2011, (Won)9 billion of impairment of goodwill, primarily relating to Kumho Investment Bank, was identified.

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

Results of Operations

Comparison of 2011 to 2010

Net Interest Income

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

	Year ended December 31, 2010	2011	Percentage change
	(in billions of Won)		(%)
Interest income			
Due from banks	(Won) 116	(Won) 169	45.7%
Loans	11,877	12,725	7.1
Financial assets at fair value through profit or loss	695	660	(5.0)
Investment financial assets(1)	1,237	1,360	9.9
Other assets	132	131	(0.8)
Total interest income	14,057	15,045	7.0
Interest expense			
Deposits	4,976	5,298	6.5
Borrowings	728	815	12.0
Debentures	1,808	1,551	(14.2)
Others	122	119	(2.5)
Total interest expense	7,634	7,783	2.0
Net interest income	6,423	7,262	13.1

Net interest margin[(2)]	2.29%	2.50%

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Notes:

(1) Includes available-for-sale financial assets and held-to-maturity financial assets.
(2) The ratio of net interest income to average interest-earning assets.

Interest income. Interest income increased 7.0% from (Won)14,057 billion in 2010 to (Won)15,045 billion in 2011, primarily as a result of a 7.1% increase in interest on loans and a 9.9% increase in interest on investment financial assets. The average balance of our interest-earning assets increased 3.8% from (Won)280,120 billion in 2010 to (Won)290,771 billion in 2011, principally due to the growth in our loan portfolio. This increase was enhanced by a 15 basis point increase in average yields on our interest-earning assets from 5.02% in 2010 to 5.17% in 2011, which reflected an increase in the general level of interest rates in Korea in 2011.

The 7.1% increase in interest on loans from (Won)11,877 billion in 2010 to (Won)12,725 billion in 2011 was primarily due to:

- a 24 basis point increase in average yields on commercial and industrial loans from 5.91% in 2010 to 6.15% in 2011, which was enhanced by a 2.8% increase in the average volume of such loans from (Won)97,487 billion in 2010 to (Won)100,205 billion in 2011;

- an 82.0% increase in the average volume of mortgage loans from (Won)4,748 billion in 2010 to (Won)8,643 billion in 2011, which was enhanced by an 8 basis point increase in average yields on such loans from 5.16% in 2010 to 5.23% in 2011; and

- a 27 basis point increase in average yields on general purpose household loans (including home equity loans) from 5.07% in 2010 to 5.34% in 2011, which was partially offset by a 0.3% decrease in the average volume of such loans from (Won)70,132 billion in 2010 to (Won)69,954 billion in 2011.

The average yields for commercial and industrial loans, mortgage loans and general purpose household loans (including home equity loans) increased mainly as a result of the increase in the general level of interest rates in Korea applicable to such loans from 2010 to 2011. The increase in the average volume of commercial and industrial loans was primarily due to an increase in demand for facility loans, reflecting increased capital expenditures by Korean businesses in 2011. The increase in the average volume of mortgage loans reflected increased demand for such loans from customers, including to finance home rentals in light of a significant increase in rent levels (particularly key money deposit levels under the *jeonsae* system) in the Korean housing market in 2011. The decrease in the average volume of general purpose household loans (including home equity loans) mainly reflected decreased demand for foreign currency general purpose household loans by Korean consumers in the face of greater foreign exchange volatility in 2011.

Overall, the average volume of our loans increased 4.5% from (Won)204,860 billion in 2010 to (Won)214,132 billion in 2011, and the average yields on our loans also increased 14 basis points, from 5.80% in 2010 to 5.94% in 2011.

Our financial assets portfolio consists primarily of investment financial assets, of which a majority was debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Bank of Korea, the Korea Development Bank and the KDIC), as well as financial assets at fair value through profit or loss.

The 9.9% increase in interest on investment financial assets from (Won)1,237 billion in 2010 to (Won)1,360 billion in 2011 was mainly the result of a 34 basis point increase in average yields on such assets from 3.30% in 2010 to 3.64% in 2011, as the average balance of such assets remained relatively steady at (Won)37,359 billion in 2011 compared to (Won)37,466 billion in 2010. The increase in average yields on investment financial assets was primarily due to an increase in the proportion of corporate bonds we held as held-to-maturity financial assets, which typically feature relatively higher yields compared to other types of held-to-maturity financial assets held by us, in our investment financial assets portfolio.

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Interest Expense. Interest expense increased 2.0% from (Won)7,634 billion in 2010 to (Won)7,783 billion in 2011, primarily due to a 6.5% increase in interest expense on deposits. Such increase was offset in part by a 14.2% decrease in interest expense on debentures. The average balance of interest-bearing liabilities increased 3.4% from (Won)262,818 billion in 2010 to (Won)271,876 billion in 2011, principally due to an increase in the average balance of deposits. The effect of this increase was partially offset by a decrease of 4 basis points in the average cost of interest-bearing liabilities from 2.90% in 2010 to 2.86% in 2011, which was driven mainly by a decrease in the average cost of debentures.

The 6.5% increase in interest expense on deposits from (Won)4,976 billion in 2010 to (Won)5,298 in 2011 was primarily due to an 11.9% increase in interest expense on time and savings deposits from (Won)4,320 billion in 2010 to (Won)4,835 billion in 2011, the effect of which was partially offset by a 69.0% decrease in interest expense on certificates of deposit from (Won)364 billion in 2010 to (Won)113 billion in 2011.

The increase in interest expense on time and savings deposits resulted from a 7.1% increase in the average balance of such deposits from (Won)150,317 billion in 2010 to (Won)160,952 billion in 2011 as well as a 13 basis point increase in the average cost of such deposits from 2.87% in 2010 to 3.00% in 2011. The increase in the average balance of time and savings deposits was attributable mainly to customers continuing preference for low-risk financial products and institutions in Korea in light of the volatility in financial markets. The increase in the average cost of time and savings deposits was due to the increase in the general level of interest rates in Korea in 2011.

The decrease in interest expense on certificates of deposit resulted from a 67.5% decrease in the average balance of such deposits from (Won)8,459 billion in 2010 to (Won)2,746 billion in 2011, the effect of which was enhanced by an 18 basis point decrease in the average cost of such deposits from 4.30% in 2010 to 4.12% in 2011. The decrease in the average balance of certificates of deposits was principally due to our continuing efforts to convert our certificates of deposit into other deposits in order to comply with new loan-to-deposit ratio requirements set by the Financial Supervisory Service, which exclude certificates of deposit from the calculation of total deposits for purposes of determining compliance with such ratio requirements. The decrease in the average cost of certificates of deposit was mainly due to an increase in the relative proportion of short-term certificates of deposit, which have lower interest rates compared to longer-tem certificates of deposit, reflecting customer s preference for such short-term products in light of the volatility in financial markets.

Overall, the average volume of our deposits increased by 4.8% from (Won)183,766 billion in 2010 to (Won)192,643 billion in 2011, and the average cost of our deposits increased by 4 basis points from 2.71% in 2010 to 2.75% in 2011.

The 14.2% decrease in interest expense on debentures from (Won)1,808 billion in 2010 to (Won)1,551 billion in 2011 mainly resulted from an 9.2% decrease in the average balance of debentures from (Won)33,523 billion in 2010 to (Won)30,433 billion in 2011. The effect of such decrease was enhanced by a 29 basis point decrease in the average cost of debentures from 5.39% in 2010 to 5.10% in 2011. The decrease in the average volume of debentures mainly reflected a decrease in debentures in local currency due to the maturity in 2011 of a large amount of such previously issued debentures, while the decrease in the average cost of debentures was primarily attributable to the maturity and repayment of higher interest rate debentures previously issued by us.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest-earning assets. Our overall net interest margin increased from 2.29% in 2010 to 2.50% in 2011, as a 13.1% increase in our net interest income from (Won)6,423 billion in 2010 to (Won)7,262 billion in 2011 outpaced a 3.8% increase in the average balance of our interest-earning assets from (Won)280,120 billion in 2010 to (Won)290,771 billion in 2011. The growth in average interest-earning assets outpaced a 3.4% increase in average interest-bearing liabilities from (Won)262,818 billion in 2010 to (Won)271,876 billion in 2011, while the increase in interest income more than offset the increase in interest expense, resulting in an increase in net interest income. The magnitude of this increase was enhanced by an increase in our net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, from 2.11% in 2010 to 2.31% in 2011. The increase in our net interest spread reflected an increase in the average yield of our interest-earning assets coupled with a decrease in the average cost of our interest-bearing liabilities from 2010 to 2011.

Impairment Loss on Credit Loss

Impairment loss on credit loss includes bad debt expenses, provision for guarantees and provision for unused commitments, in each case net of reversal of provisions. Our impairment loss on credit loss decreased by 21.0% from (Won)2,873 billion in 2010 to (Won)2,269 billion in 2011, primarily due to a decrease in bad debt expenses. Our bad debt expenses, net of reversal of provisions for credit losses, decreased 24.6% from (Won)2,869 billion in 2010 to (Won)2,162 billion in 2011, as higher bad debt expenses resulting from increased loan loss provisioning by us in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by various Korean financial institutions, including us, were not repeated in 2011. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to Korean construction and shipbuilding companies, and financial difficulties of these companies may adversely impact us. Under IFRS, if our provisions for credit losses are deemed insufficient for regulatory purposes, we compensate for the difference by recording a planned regulatory reserve for credit loss, which is segregated within retained earnings. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy and Notes 31 of the notes to our consolidated financial statements included elsewhere in this annual report. Our combined net bad debt expenses and planned regulatory provision for credit loss decreased by 13.5% from (Won)3,422 billion in 2010 to (Won)2,961 billion in 2011.

Our loan charge-offs, net of recoveries, increased 69.3% from (Won)1,338 billion in 2010 to (Won)2,264 billion in 2011, primarily due to greater charge-offs of loans to small- and medium- enterprise borrowers.

Our provisions for guarantees, net of reversal of such provisions, increased 258.1% from (Won)39 billion in 2010 to (Won)140 billion in 2011, due primarily to an 89.9% decrease in reversal of such provisions from (Won)168 billion in 2010 to (Won)17 billion in 2011, mainly as a result of significantly increased reclassifications in 2010 of our provisions for guarantees to bad debt expenses, including in connection with the restructuring (in the form of workout, liquidation or court receivership) in 2010 of 65 companies selected by us and various other Korean financial institutions, which were not repeated in 2011.

Provisions for Credit Losses

For information on provisions for credit losses, see Critical Accounting Policies Impairment of Loans and Provisions for Credit Losses and Item 4B. Business Overview Assets and Liabilities Loan Portfolio Allocation and Analysis of Provisions for Credit Losses under IFRS.

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

	As of December 31,	
	2010	**2011**
Impaired corporate loans as a percentage of total corporate loans	5.4%	3.3%
Provisions for credit losses for corporate loans as a percentage of total corporate loans	3.4	2.5
Provisions for credit losses for corporate loans as a percentage of impaired corporate loans	61.9	76.0
Net charge-offs as a percentage of total corporate loans	0.9	1.5

During 2011, impaired corporate loans and provisions for credit losses for corporate loans, each as a percentage of total corporate loans, decreased due to an improvement in the overall credit quality of our corporate loans through increased sales and charge-offs of impaired loans. However, provisions for credit losses for corporate loans as a percentage of impaired corporate loans increased during 2011 as the decrease in impaired corporate loans, reflecting such improvement in the overall credit quality of our corporate loans in 2011, outpaced the decrease in the level of our provisions for credit losses.

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Consumer Loans and Credit Card Balances. Similar to our practice for corporate loans, we establish individual provisions for credit losses for consumer loans and outstanding credit card balances based on whether a particular loan is impaired or not. In addition, we establish provisions for credit losses for consumer loans and credit card balances that are not deemed to be impaired using an incurred loss methodology based primarily on our historical loss experience, which takes into account the default probability and the potential severity of any resulting loss. See Item 4B. Business Overview Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. For additional information with respect to the asset quality of our consumer credit portfolio, see Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

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

	As of December 31,	
	2010	**2011**
Impaired consumer loans as a percentage of total consumer loans	0.4%	0.6%
Provisions for credit losses for consumer loans as a percentage of total consumer loans	0.3	0.4
Provisions for credit losses for consumer loans as a percentage of impaired consumer loans	79.0	63.2
Net charge-offs of consumer loans as a percentage of total consumer loans	0.1	0.1

During 2011, impaired consumer loans and provisions for credit losses for consumer loans, each as a percentage of total consumer loans increased during 2011 as a result of an overall deterioration in the asset quality of our consumer loans. However, provisions for credit losses for consumer loans as a percentage of impaired consumer loans decreased, as the increase in our provisioning for consumer loans in 2011 was outpaced by the increase in our impaired consumer loans (particularly general purpose household loans).

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

	As of December 31,	
	2010	**2011**
Impaired credit card balances as a percentage of total credit card balances(1)	1.3%	1.6%
Provisions for credit losses for credit card balances as a percentage of total credit card balances(1)	2.9	2.9
Provisions for credit losses for credit card balances as a percentage of impaired credit card balances(1)	217.2	178.4
Net charge-offs as a percentage of total credit card balances(1)	1.7	2.4

(1) Includes corporate credit card balances.

During 2011, impaired credit card balances as a percentage of total credit card balances increased due to an overall deterioration in the asset quality of our credit card portfolio. However, the level of provisions for credit losses for credit card balances as a percentage of impaired credit card balances decreased, as the effect of growth in the amount of our impaired credit card balances, reflecting such deterioration in the asset quality of our credit card portfolio as well as the growth of our overall credit card balances, outpaced the increase in the amount of our provisioning for credit card balances.

Net Fees and Commissions Income

The following table shows, for the periods indicated, the components of our net fees and commissions income:

	Year ended December 31,		Percentage change
	2010	**2011**	
	(in billions of Won)		(%)
Fees and commissions income	(Won) 1,688	(Won) 1,774	5.1%
Fees and commissions expense	572	579	1.2
Total fees and commissions income, net	(Won) 1,116	(Won) 1,195	7.1

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Our net fees and commissions income increased 7.1% from (Won)1,116 billion in 2010 to (Won)1,195 billion in 2011, as a 5.1% increase in fees and commissions income from (Won)1,688 billion in 2010 to (Won)1,774 billion in 2011 outpaced a 1.2% increase in fees and commissions expense from (Won)572 billion in 2010 to (Won)579 billion in 2011. The 5.1% increase in fees and commissions income was mainly the result of an 8.7% increase in banking fees from (Won)750 billion in 2010 to (Won)815 billion in 2011, which reflected increased fees we received in local currency, particularly agency commissions from our bancassurance activities. The 1.2% increase in fees and commissions expense was primarily due to a 4.6% increase in credit card commissions paid from (Won)368 billion in 2010 to (Won)385 billion in 2011, which mainly reflected an increase in credit card issuances, as well as a 13.1% increase in fees paid from (Won)107 billion in 2010 to (Won)121 billion in 2011, which was mainly attributable to an increase in fees paid to legal, accounting and other advisory service providers. The effect of such increases was partially offset by a 32.2% decrease in brokerage commissions paid from (Won)90 billion in 2010 to (Won)61 billion in 2011, reflecting a temporary waiver of such commissions by the Korea Securities Depositary and the Korea Financial Investment Association in 2011.

Net Gain on Financial Assets

The following table shows, for the periods indicated, the components of our net gain on financial assets:

	Year ended December 31, 2010	2011	Percentage change
	(in billions of Won)		(%)
Gain (loss) on financial assets at fair value through profit or loss, net	(Won) 39	(Won) 119	205.1%
Gain (loss) on available-for-sale financial assets, net[2]	1,073	1,073	%
Gain (loss) on held-to-maturity financial assets, net	0	0	N/M[1]
Total net gain (loss) on financial assets	(Won) 1,112	(Won) 1,192	7.2

(1) N/M = not meaningful.

(2) Includes impairment losses on available-for-sale financial assets of (Won)38 billion in 2010 and (Won)266 billion in 2011.

Our net gain on financial assets increased 7.2% from (Won)1,112 billion in 2010 to (Won)1,192 billion in 2011, primarily as a result of a 205.1% increase in net gain on financial assets at fair value through profit or loss from (Won)39 billion in 2010 to (Won)119 billion in 2011. Such increase was principally due to a change in net gain (loss) on financial assets designated at fair value through profit or loss, from a net loss of (Won)402 billion in 2010 to a net gain of (Won)235 billion in 2011, which was offset in part by a change in net gain (loss) on financial assets held for trading from a net gain of (Won)441 billion in 2010 to a net loss of (Won)115 billion in 2011. The change in net gain (loss) on financial assets designated at fair value through profit or loss resulted mainly from a change in net gain (loss) on valuation of other financial assets designated at fair value through profit or loss from a net loss of (Won)183 billion in 2010 to a net gain of (Won)409 billion in 2011, as well as a decrease in net loss on transaction of such other financial assets from (Won)337 billion in 2010 to (Won)118 billion in 2011. The change in net gain (loss) on financial assets held for trading was primarily due to a change in net gain (loss) on valuation of derivatives held for trading from a net gain of (Won)99 billion in 2010 to a net loss of (Won)152 billion in 2011, driven mainly by a change in net gain (loss) on valuation of stock equity derivatives from a net gain of (Won)118 billion in 2010 to a net loss of (Won)223 billion in 2011, and a decrease in net gain on valuation and disposal of securities held for trading from (Won)314 billion in 2010 to (Won)26 billion in 2011, driven mainly by a change in net gain (loss) on transaction of such securities from a net gain of (Won)245 billion in 2010 to a net loss of (Won)28 billion in 2011. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 36 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net gain (loss) on available-for-sale financial assets remained relatively constant at (Won)1,073 billion in 2010 and 2011, as an increase in net gain on transaction of available-for-sale securities from (Won)1,103 billion in 2010 to (Won)1,339 billion in 2011 was substantially offset by an increase in impairment losses on such securities from (Won)38 billion in 2010 to (Won)266 billion in 2011. Such increase in impairment losses was attributable mainly to impairment losses recognized on our holdings of equity securities (including common stock of POSCO) in 2011 in light of continuing market volatility.

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Unrealized gains and losses (other than impairment losses) on available-for-sale financial assets are recorded in our statement of financial position as part of accumulated other comprehensive income, under other equity. In 2011, we recognized a net loss on valuation of available-for-sale financial assets of (Won)375 billion as part of other comprehensive income (loss) net of tax, principally as a result of decreases in valuation gains on equity securities of Hyundai Engineering & Construction, which reflected our disposal of such securities in 2011.

Net Other Operating Expenses

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year ended December 31, 2010	2011	Percentage change
	(in billions of Won)		(%)
Other operating income	(Won) 8,106	(Won) 8,855	9.2%
Other operating expenses	(12,016)	(13,278	