

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

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

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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. Yes No

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

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

Indicate by check mark whether the registrant 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):

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 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 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 substance in connection with any discussion of future operating or financial performance or our expectations, plans, projections or business prospects identify forward-looking statements. In particular, the statements under the headings Item 3D. Risk Factors, Item 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;

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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.

Table of Contents**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)

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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.

Table of Contents**Consolidated Statement of Financial Position Data**

| | 2010 | As of December 31, 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 |

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- (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.

Table of Contents**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 |

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| | | |
|------------------------------|--------------|--------------|
| 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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| | 2010 | As of December 31, 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.

Table of Contents**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 (in billions of Won) | | Other | | Inter-segment transactions ⁽¹⁾ | | Total | |
|--|------------|---------|---------------|--------|--------------|--------|---|--------|-------|--------|---|----------|-------|---------|
| 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.

Table of Contents**Selected Financial Information****Average Balances and Related Interest**

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

| | Average Balance ⁽¹⁾ | 2010 | | Year ended December 31, | | 2011 | | Average Yield |
|--|-----------------------------------|-----------------------------------|--------------------------------------|-------------------------|-----------------------------------|--------------------------------------|------------------|------------------|
| | | Average Balance ⁽¹⁾ | Interest Income ⁽²⁾⁽³⁾ | Average Yield | Average Balance ⁽¹⁾ | Interest Income ⁽²⁾⁽³⁾ | 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, | | | | | |
|---|-----------------------------------|-----------------------------|-----------------|-----------------------------------|-----------------------------|-----------------|
| | Average Balance ⁽¹⁾ | 2010 Interest Expense | Average Cost | Average Balance ⁽¹⁾ | 2011 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.

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

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

| | Volume | 2011 vs. 2010 Increase/(decrease) due to changes in Rate (in billions of Won) | Total |
|--|------------|---|-----------|
| 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.

Table of Contents**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.

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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.

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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.

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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

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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.

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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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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 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 depository 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 Jomhuri 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.

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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.

Table of Contents**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.

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The business plan included in the memorandum of understanding, which we prepared and which the KDIC approved, set forth the basis on which we were to manage the normalization and integration of our subsidiaries' operations and to return the public funds that were injected into them. The business plan also set financial targets for our capital ratio, return on total assets, expense-to-revenue ratio, operating income per employee, non-performing loan ratio and holding company expense ratio. 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.

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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;

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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.

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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 Overview* **Business**

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.

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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.

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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 | % of Total | 2011 | % of Total |
| | Amount | (in billions of Won, except percentages) | Amount | % of Total |
| 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

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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⁾ (in billions of Won, except percentage) | Amount ⁽¹⁾ | % of Total Loans ⁽²⁾ |
| 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.

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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.

Table of Contents***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.

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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.

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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:

| Area | Woori Bank | | Kyongnam Bank | | Kwangju Bank | | Total | |
|---------------------------------------|------------|------------|---------------|------------|--------------|------------|--------|------------|
| | Number | % of Total | Number | % of Total | Number | % of Total | Number | % of Total |
| 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.

Table of Contents*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.

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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 | 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 |

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| | | | | | | |
|--|-----------------|----------------|----------------|------------------|----------------|----------------|
| 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% |

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

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Each cardholder is allocated an aggregate credit limit in respect of all cards issued under his or her account and each month. We advise each cardholder of the credit limit relating to the cards in his or her monthly billing statement. Credit limits in respect of card loans are established separately. We conduct ongoing monitoring of all 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.

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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 Hantnet 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:

| | Amortized Cost | As of December 31, 2010 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 | | | | | | |
| Beneficiary certificates ⁽¹⁾ | 2,014 | 1,311 | (89) | | | 3,236 |
| Others | 5,073 | 137 | (14) | | | 5,196 |
| | 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 |

| | Amortized Cost | As of December 31, 2011 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 | | | | | | |
| Beneficiary certificates ⁽¹⁾ | 1,860 | 917 | (25) | | | 2,752 |
| Others | 3,720 | 74 | (5) | | | 3,789 |
| | 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 | Estimated Fair Value of |

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| | 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.

Table of Contents**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. Petersburg. In addition, we have in recent years entered into various memoranda of understanding and strategic alliances with 1