

Byongwon Bahk, CEO & Chairman, Woori Financial Group  
The Asian Financial Crisis Revisited, Challenges Over the Next Decade  
September 2007

Dear Colleagues,

Let me thank the FRB San Francisco, and Dr. Yellen, for holding this enlightening conference and inviting me.

Without your permission, Mr. Tang, I would like to briefly introduce Woori Financial Group because if I cannot cover other points within seven minutes, this will never be covered in Q&A session.

Having the 2<sup>nd</sup> largest nationwide bank, two of five regional banks, one of three largest securities companies, and fourth largest asset management company, Woori is the largest financial group in Korea even though we do not have an insurance company in the group. Total asset is roughly U\$ 250 billion, and the market capitalization approximately stands at U\$ 20 billion.

What I'm asked to answer today in Mr. Christopher Sigur's last letter is "What keeps you up at night." My answer is, "I sleep very well at night."

Anyway, the biggest concern that occupies me and all those who are running financial companies in Korea nowadays is as a matter of course, how to increase the profit, and give more dividends to shareholders. In the face of ever escalating competition, the competitive situation in Korea surrounding banks is symbolized by the ever narrowing Net Interest Margin. All Korean banks are suffering from it.

Basically, this results from the fundamental change in demand and supply in financial market. The country is no longer a net debtor. It has a net foreign asset of U\$ 105 billion at 2006 year-end, and its foreign reserves reached U\$ 254 billion recently.

- National Pension Fund has now accumulated up to U\$ 229 billion
- Large companies now have huge amount of cash reserves from retained earnings, which is estimated to be U\$ 50 billion, relying less and less on borrowings.
- Households and individuals are no longer satisfied with low-interest deposits. The share of deposits in households' financial assets is dropping sharply from 54% in 2002 to 47% in 2006. This trend will continue, since the ratio in the US is just 15.6%.
- Money is moving rapidly from bank deposits to mutual funds and Cash Management Accounts in securities companies.

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The good times for banks are gone. Banks in Korea should now accept the rising funding cost as a given condition even though they are doing whatever they can do to keep the deposits as much as possible.

On the lending side, mortgage loans have been tightly regulated from the earlier stage before bubbles formed widely. Mortgage loans are believed to be the main culprit helping speculation and causing the excessive price rise in housing and real estate market.

SMEs are the last resort. But, since the financial crisis, the banks in Korea became very conservative and cautious. They are sacrificing more profitability than security in trade-off in the course of cut-throat competition for SME lending.

And bigger SMEs with a good financial statement at last began to understand that there are a lot of alternative ways to raise fund other than borrowings from banks.

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This is the reason why Korean banks are forced to move to new frontiers, where they can supposedly expect better profitability.

These new frontiers are:

1. Focusing on fees and commissions earning businesses such as credit card, sales of bancassurance and beneficiary certificates of mutual funds, and foreign exchange businesses
2. Strengthening investment banking
3. Broadening business portfolio into new businesses, such as consumer financing and insurance in case of my group
4. Lastly, we have to move abroad, especially into neighboring Asian countries

Financial holding company is regarded as a better way to perform these tasks, and this is the reason why Korean government has enacted the Financial Holding Company Act to lay down the regulatory and legal framework.

Woori Finance Holdings, the first Korean financial holding company, having Woori Bank with the strongest background in corporate banking along with one of the largest securities companies, is best positioned in the first two frontiers.

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The basic motivation of the government in enacting the so-called Capital Market Consolidation Act is to promote mergers among securities companies, expecting they will grow into competent investment banks. But we at last come to know that the size or the larger capital base is simply not enough to make a competent investment bank. Network and manpower, and track record and brand name matter more in this business. It seems to me we need some kinds of strategic alliance with world-class IBs.

Most of group or banks in Korea have consumer financing and insurance companies under their umbrellas. My group also has to penetrate into these areas. Since the premium for licenses for securities and insurance companies are too high, and this prevents mergers in these sectors, contrary to the expectation of the government, who wants to see consolidation, I'm persuading the government to issue new licenses in these sectors. In this case, we have to consider strategic alliance with a world leading insurance company.

Globalization, inbound and outbound, is also one of the most important policy orientations of the government and financial companies. Further inducement of foreign capital is necessary in order to borrow the competence and expertise of advanced financial firms.

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Outbound globalization is necessary to overcome the limit of domestic market. Doing business with Koreans and Korean companies through a couple of overseas branches is now meaningless. Korean banks should set up subsidiaries abroad and do business with local people and companies. Woori Bank is the first to realize this new strategy. Woori has a subsidiary in the US with 17 branches of its own, and is going to set up an independent subsidiary in Beijing this fall, putting all the existing branches of Woori Bank in China under this new subsidiary.

The final goal of globalization of Asian financial companies should be closer cooperation among ourselves and less dependency upon New York and London Financial Market, just as we increased intra-Asia trade, making Asian Economies less dependent upon US and EU markets. (as Mr. Dominic Barton has pointed out yesterday morning)

I'll stop here. Thank you for your attention.