WOORI FINANCE HOLDINGS CO LTD
Form 20-F
April 30, 2014
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As filed with the Securities and Exchange Commission on April 30, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

(Mark One)

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

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2013

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)

51, Sogong-ro, Jung-gu, Seoul 100-792, Korea

(Address of principal executive offices)

Kwansic Lee

51, Sogong-ro, Jung-gu, Seoul 100-792, Korea

Telephone No.: +82-2-2125-2136

Facsimile No.: +82-2-0505001-2136

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

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

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

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

None

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

None

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

806,013,340 shares of Common Stock, par value 5,000 per share

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

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

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

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

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

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

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

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

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

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

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

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

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

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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, 2011, 2012 and 2013 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, 2011, 2012 and 2013 has been prepared in accordance with IFRS as issued by the IASB, and (ii) as of and for the year ended December 31, 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.

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.

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

Acquisitions and other transactions that we have effected in recent years may affect the direct comparability of the historical financial information included in this annual report as of and for different dates and periods:

- 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 2012, we acquired certain assets and assumed certain liabilities of Solomon Mutual Savings Bank, also through Woori FG Savings Bank Co., Ltd;

- in October 2012, we established Woori Finance Research Institute as a consolidated subsidiary; and

- in April 2013, we effected a spin-off of the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card.

See Item 5A. Operating Results Overview Acquisitions.

The Korean government, which currently owns 56.97% of our outstanding common stock through the Korea Deposit Insurance Corporation, or the KDIC, is in the process of implementing a privatization plan with respect to us and our subsidiaries. Pursuant to such plan, in May 2014, we plan to establish two new companies, KJB Financial Group Co., Ltd. and KNB Financial Group Co., Ltd., through a spin-off of our businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. As a result of such spin-off, KJB Financial Group will own the shares of Kwangju Bank currently held by us, and KNB Financial Group will own the shares of Kyongnam Bank currently held by us. We will no longer own any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies will be our subsidiaries, after the spin-off. In addition, in March 2014, we sold our 52% ownership interest in Woori Financial Co., Ltd. to KB Financial Group Inc. We also entered into share purchase agreements for (i) the sale of our 100% ownership interest in Woori Asset Management Co., Ltd. to Kiwoom Securities Co., Ltd. in February 2014, (ii) the sale of our 100% ownership interest in Woori F&I to Daishin Securities Co., Ltd. in April 2014 and (iii) the collective sale of our 37.9% ownership interest in Woori Investment & Securities Co. Ltd., 51.6% ownership interest in Woori Aviva Life Insurance Co., Ltd. and 100% ownership interest in Woori FG Savings Bank to NongHyup Financial Group Inc. in April 2014. See Item 4A. History and Development of the Company Privatization Plan. In light of such planned dispositions, the operations of Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I have been classified as a disposal group held for distribution or sale, and their operations have been accounted for as discontinued operations, in our consolidated financial statements as of and for the year ended December 31, 2013 included in this annual report. Similarly, our consolidated statements of comprehensive income for the years ended December 31, 2011 and 2012 included in this annual report have been restated to account for such entities as discontinued operations. However, our consolidated statements of financial position as of December 31, 2011 and 2012 included in this annual report have not been so restated. Accordingly, in general, our financial information as of December 31, 2013 and for the years ended December 31, 2010, 2011, 2012 and 2013 appearing in this annual report does not include financial data with respect to such discontinued operations, while our financial information as of December 31, 2010, 2011 and 2012 appearing in this annual report includes financial data with respect to such discontinued operations. As a result, our financial information as of December 31, 2013 and for the years ended December 31, 2010, 2011, 2012 and 2013 may not be directly comparable to our financial information as of and for other dates and periods.

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 (excluding discontinued operations);
- 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 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 conversions of Won amounts into U.S. dollars at the noon buying rate of the Federal Reserve Bank of New York for Won in effect on December 31, 2013, which was 1,055.3 = US$1.00.

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FORWARD-LOOKING STATEMENTS

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

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

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

- a change or delay in, or cancellation of, the Korean government s privatization plan with respect to us and our subsidiaries;
- our ability to successfully implement our strategy;
- future levels of non-performing loans;
- our growth and expansion;
- the adequacy of allowances 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;

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- foreign exchange rates;
- prices and yields of equity and debt securities;
- the performance of the financial markets in Korea and globally;
- changes in domestic and foreign laws, regulations and taxes;
- changes in competition and the pricing environment in Korea; and
- regional or general changes in asset valuations.

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

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

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

Item 3A. *Selected Financial Data*

The selected consolidated financial and operating data set forth below as of and for the years ended December 31, 2010, 2011, 2012 and 2013 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, 2011, 2012 and 2013 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 year ended December 31, 2009 derived from our consolidated financial statements prepared in accordance with U.S. GAAP have not been included below.

The Korean government, which currently owns 56.97% of our outstanding common stock through the KDIC, is in the process of implementing a privatization plan with respect to us and our subsidiaries. As a result, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I have been classified as a disposal group held for distribution or sale in our consolidated statement of financial position as of December 31, 2013 (but not as of prior dates) and have been accounted for as discontinued operations in our consolidated statements of comprehensive income for the years ended December 31, 2010, 2011, 2012 and 2013. See Item 4A. History and Development of the Company Privatization Plan.

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

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Consolidated Statement of Comprehensive Income Data

	Year ended December 31,				
	2010(1)	2011(1)(2)	2012(1)(2)(3)	2013(1)(2)(3)	2013(1)(2)(3)(4)
	(in billions of Won except per share data)				(in millions of US$ except per share data)
Interest income	10,442	11,095	10,891	9,493	US$ 8,996
Interest expense	(6,255)	(6,206)	(6,043)	(5,001)	(4,739)
Net interest income	4,187	4,889	4,848	4,492	4,257
Fees and commissions income	1,576	1,625	1,687	1,565	1,483
Fees and commissions expense	(420)	(444)	(498)	(639)	(605)
Net fees and commissions income	1,156	1,181	1,189	926	878
Dividends	140	143	101	88	83
Net gain (loss) on financial assets at fair value through profit or loss	22	137	(365)	124	117
Net gain on available-for-sale financial assets	976	1,027	533	(85)	(81)
Impairment losses on credit loss	(2,506)	(1,923)	(1,799)	(2,277)	(2,158)
Other net operating expenses(5)	(2,676)	(3,163)	(2,958)	(3,028)	(2,869)
Operating income	1,299	2,291	1,549	240	227
Share of profits of joint ventures and associates	33	(39)	45	(1)	(1)
Other non-operating income (expense)	(68)	90	44	49	46
Non-operating income	(35)	51	89	48	45
Net income before income tax expense	1,264	2,342	1,638	288	272
Income tax expense	313	559	357	35	33
Income of continuing operations	951	1,783	1,281	253	239
Income (loss) of discontinued operations	650	668	566	(966)	(916)
Net income	1,601	2,451	1,847	(713)	US$ (677)
Remeasurement of the net defined benefit liability		(18)	(51)	9	9
Items not subsequently reclassified to net income		(18)	(51)	9	9
Loss on available-for-sale financial assets	(205)	(375)	(349)	(51)	(48)
Share of other comprehensive gain (loss) of joint ventures and associates	(21)	(38)	57	(6)	(6)
Gain (loss) on overseas business translation	(19)	25	(108)	(60)	(57)
Gain (loss) on valuation of cashflow hedge	9	3	13	(2)	(2)
Items subsequently reclassified to net income	(236)	(385)	(387)	(119)	(113)
Other comprehensive income (loss), net of tax	(236)	(403)	(438)	(110)	(104)
Total comprehensive income (loss)	1,365	2,048	1,409	(823)	US$ (781)
Net income (loss) attributable to owners	1,289	2,154	1,633	(538)	US$ (510)
Income of continuing operations	794	1,636	1,164	162	153
Income (loss) of discontinued operations	495	518	469	(700)	(663)
Net income (loss) attributable to non-controlling interests	312	297	214	(175)	US$ (167)
Income of continuing operations	157	147	117	91	86
Income (loss) of discontinued operations	155	150	97	(266)	(253)
Comprehensive income (loss) attributable to owners	1,052	1,729	1,177	(623)	(591)
Comprehensive income (loss) attributable to non-controlling interests	313	319	232	(200)	(190)
Basic and diluted earnings from continuing and discontinued operations per share	1,599	2,670	1,993	(704)	US$ (0.67)

Basic and diluted earnings from continuing operations per share	985	2,027	1,411	165		0.16
Per common share data:						
Net income (loss) per share basic	1,599	2,670	1,993	(704)	US$	(0.67)
Weighted average common shares outstanding basic (in thousands)	806,013	806,013	806,013	806,013		806,013
Net income (loss) per share diluted	1,599	2,670	1,993	(704)	US$	(0.67)
Weighted average common shares outstanding diluted (in thousands)	806,013	806,013	806,013	806,013		806,013
Cash dividends paid per share	250	250	250		US$	

(1) The amounts for 2010, 2011, 2012 and 2013 reflect the classification of certain subsidiaries as discontinued operations.

(2) The amounts for 2013 reflect a change in our accounting policies pursuant to an amendment to International Accounting Standards, or IAS 19, Employee Benefits, which is effective beginning in 2013. Corresponding amounts for 2012 and 2011 (but not for 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(3) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(4) Won amounts are expressed in U.S. dollars at the rate of 1,055.3 to US$1.00, the noon buying rate in effect on December 31, 2013 as quoted by the Federal Reserve Bank of New York in the United States.

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

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Consolidated Statement of Financial Position Data

	As of December 31,				
	2010	2011[(1)]	2012[(1)(2)]	2013[(1)(2)(3)]	2013[(1)(2)(3)(4)]
	(in billions of Won)				(in millions of US$)
Assets					
Cash and cash equivalents	4,871	6,417	5,778	5,478	US$ 5,191
Financial assets at fair value through profit or loss	22,184	25,600	27,352	4,806	4,554
Available-for-sale financial assets	21,998	19,672	18,889	17,085	16,190
Held-to-maturity financial assets	19,886	20,036	18,685	12,039	11,408
Loans and receivables	216,792	235,160	250,276	211,912	200,808
Investments in joint ventures and associates	745	928	1,038	618	585
Investment properties	643	499	492	341	323
Premises and equipment	3,097	3,134	3,186	2,536	2,404
Intangible assets and goodwill	295	448	433	269	255
Assets held for sale	88	56	83	1	1
Current tax assets	9	57	39	143	136
Deferred tax assets	59	80	155	155	147
Derivative assets	131	327	281	131	125
Other assets[(5)]	379	377	415	179	169
Disposal group held for sale				34,685	32,867
Disposal group held for distribution to owners				50,312	47,676
Total assets	291,177	312,791	327,102	340,690	US$ 322,839
Liabilities					
Financial liabilities at fair value through profit or loss	8,838	9,622	10,986	2,507	US$ 2,376
Deposits due to customers	185,428	195,930	204,210	175,324	166,136
Borrowings	34,266	34,667	33,480	18,232	17,276
Debentures	29,111	29,266	27,960	21,678	20,542
Provisions	761	892	864	685	649
Net defined benefit liability	70	120	166	72	68
Current tax liabilities	174	274	179	10	9
Deferred tax liabilities	213	260	134	49	47
Derivative liabilities	5	33	38	2	2
Other financial liabilities[(6)]	11,648	19,084	25,544	19,914	18,871
Other liabilities[(7)]	399	570	508	410	391
Liabilities directly associated with disposal group held for sale				32,048	30,368
Liabilities directly associated with disposal group held for distribution to owners				46,882	44,426
Total liabilities	270,913	290,718	304,069	317,813	US$ 301,161
Equity					
Owners Equity					
Capital stock	4,030	4,030	4,030	4,030	US$ 3,819
Hybrid securities		309	498	498	472
Capital surplus	180	176	174	177	167
Other equity[(8)]	1,002	563	112	(35)	(34)
Retained earnings	10,489	12,446	13,881	13,113	12,426
Equity related to asset group held for sale				30	28
Equity related to asset group held for distribution to owners				36	34
Non-controlling interests	4,563	4,549	4,338	5,028	4,766
Total equity	20,264	22,073	23,033	22,877	US$ 21,678
Total liabilities and equity	291,177	312,791	327,102	340,690	US$ 322,839

(1) The amounts as of December 31, 2013 reflect a change in our accounting policies pursuant to an amendment to IAS 19, Employee Benefits, which is effective beginning in 2013. Corresponding amounts as of December 31, 2012 and 2011 (but not as of December 31, 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

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(2) The amounts as of December 31, 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(3) The amounts as of December 31, 2013 reflect the classification of certain subsidiaries as a disposal group held for distribution or sale.

(4) Won amounts are expressed in U.S. dollars at the rate of 1,055.3 to US$1.00, the noon buying rate in effect on December 31, 2013 as quoted by the Federal Reserve Bank of New York in the United States.

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

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

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

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

Profitability Ratios and Other Data

	Year ended December 31,			
	2010(1)	2011(1)	2012(1)(2)	2013(1)(2)
	(in billions of Won except percentages)			
Return on average assets(3)	0.55%	0.90%	0.67%	(0.22)%
Return on average equity(4)	9.19	14.20	10.46	(3.45)
Net interest spread(5)	1.75	2.01	1.94	1.83
Net interest margin(6)	1.87	2.14	2.07	1.94
Cost-to-income ratio(7)	44.86	46.12	50.79	59.30
Average equity as a percentage of average total assets	6.01	6.36	6.39	6.50
Total revenue(8)	13,156	14,027	12,847	11,185
Operating expense(9)	9,351	9,813	9,499	8,668
Operating margin(10)	3,805	4,214	3,348	2,517
Operating margin as a percentage of total revenue	28.92%	30.04%	26.06%	22.50%

(1) The amounts for 2010, 2011, 2012 and 2013 reflect the classification of certain subsidiaries as discontinued operations.

(2) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(3) Represents net income attributable to owners as a percentage of average total assets. Average balances are based on daily balances for Woori Bank and on quarterly balances for all of our other subsidiaries and our structured companies.

(4) Represents net income attributable to owners as a percentage of average equity. Average balances are based on daily balances for Woori Bank and on quarterly balances for all of our other subsidiaries and our structured companies.

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

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

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

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

The following table shows how total revenue is calculated:

	Year ended December 31,			
	2010(a)	2011(a)	2012(a)(b)	2013(a)(b)
	(in billions of Won)			
Interest income	10,442	11,095	10,891	9,493
Fees and commissions income	1,576	1,625	1,687	1,565
Dividends	140	143	101	88
Net gain (loss) on financial assets at fair value through profit or loss	22	137	(365)	124
Net gain on available-for-sale financial assets	976	1,027	533	(85)
Net gain on held-to-maturity financial assets				
Total revenue	13,156	14,027	12,847	11,185

(a) The amounts for 2010, 2011, 2012 and 2013 reflect the classification of certain subsidiaries as discontinued operations.

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(b) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(9) Represents interest expense, fees and commissions expense and other net operating expense, excluding impairment losses on credit loss of 2,506 billion, 1,923 billion, 1,799 billion and 2,277 billion for 2010, 2011, 2012 and 2013, respectively.

The following table shows how operating expense is calculated:

	Year ended December 31,			
	2010[(a)]	2011[(a)]	2012[(a)(b)]	2013[(a)(b)]
	(in billions of Won)			
Interest expense	6,255	6,206	6,043	5,001
Fees and commissions expense	420	444	498	639
Other net operating expenses[(c)]	2,676	3,163	2,958	3,028
Operating expense	9,351	9,813	9,499	8,668

(a) The amounts for 2010, 2011, 2012 and 2013 reflect the classification of certain subsidiaries as discontinued operations.

(b) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(c) The amount for 2013 reflects a change in our accounting policies pursuant to an amendment to IAS 19, Employee Benefits, which is effective beginning in 2013. Corresponding amounts for 2012 and 2011 (but not for 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(10) Represents total revenue less operating expense.

Asset Quality Data

	As of December 31,			
	2010	2011	2012[(1)]	2013[(1)(2)]
	(in billions of Won, except percentages)			
Total loans[(3)]	201,235	212,492	221,028	193,766
Total non-performing loans[(4)]	6,550	3,780	3,766	4,996
Other impaired loans not included in non-performing loans[(5)]	475	238	698	690
Total non-performing loans and other impaired loans[(5)]	7,025	4,018	4,464	5,685
Total allowance for credit losses	4,718	3,759	3,565	3,337
Non-performing loans as a percentage of total loans	3.25%	1.78%	1.70%	2.58%
Non-performing loans as a percentage of total assets	2.25	1.21	1.15	1.47
Total non-performing loans and other impaired loans as a percentage of total loans	3.49	1.89	2.02	2.93
Allowance for credit losses as a percentage of total loans	2.34	1.77	1.61	1.72

(1) The amounts as of December 31, 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

(2) The amounts as of December 31, 2013 reflect the classification of certain subsidiaries as a disposal group held for distribution or sale.

(3) Not including due from banks and other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

(4) Defined as those loans that are past due by 90 days or more or 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.

(5) Other impaired loans as of December 31, 2010, 2011 and 2012 exclude loans that would otherwise have been considered impaired but were securitized and were held by Woori F&I, our wholly-owned subsidiary, in the aggregate amount of 664 billion, 980 billion and 1,207 billion as of December 31, 2010, 2011 and 2012, respectively.

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Selected Financial Information

Average Balances and Related Interest

The following tables show our average balances and interest rates for the past three years (excluding discontinued operations):

	Year ended December 31,								
	2011			2012[1]			2013[1]		
	Average Balance[2]	Interest Income[3]	Average Yield	Average Balance[2]	Interest Income[3]	Average Yield	Average Balance[2]	Interest Income[3]	Average Yield
	(in billions of Won, except percentages)								
Assets									
Interest-earning assets									
Due from banks	6,276	53	0.84%	7,781	109	1.40%	9,088	120	1.32%
Loans[4]									
Commercial and industrial	80,588	4,826	5.99	80,377	4,582	5.70	82,875	4,062	4.90
Trade financing	11,874	283	2.38	12,935	296	2.29	12,386	220	1.78
Other commercial	11,729	565	4.82	11,030	449	4.07	9,584	351	3.66
General purpose household[5]	62,519	3,271	5.23	60,840	3,198	5.26	58,770	2,694	4.58
Mortgage	6,345	330	5.20	10,296	520	5.05	15,979	686	4.29
Credit cards[3]	4,344	370	8.52	4,310	318	7.38	4,197	337	8.03
Total loans	177,399	9,645	5.44	179,788	9,363	5.21	183,791	8,350	4.54
Securities									
Trading	7,952	292	3.67	9,221	326	3.54	3,753	109	2.90
Investment[6]	28,569	991	3.47	26,973	1,013	3.76	26,349	860	3.26
Total securities	36,521	1,283	3.51	36,194	1,339	3.70	30,102	969	3.22
Other	8,429	114	1.35	10,893	80	0.73	8,548	54	0.63
Total average interest earning assets	228,625	11,095	4.85	234,656	10,891	4.64	231,529	9,493	4.10
Total average non-interest earning assets	9,828			9,789			8,595		
Total average assets	238,453	11,095	4.65%	244,445	10,891	4.46%	240,124	9,493	3.95%

	Year ended December 31,								
	2011			2012[1]			2013[1]		
	Average Balance[2]	Interest Expense	Average Cost	Average Balance[2]	Interest Expense	Average Cost	Average Balance[2]	Interest Expense	Average Cost
	(in billions of Won, except percentages)								
Liabilities									
Interest-bearing liabilities									
Deposits due to customers:									
Demand deposits	7,898	20	0.25%	9,641	27	0.28%	9,397	38	0.40%
Time and savings deposits	136,423	4,114	3.02	138,660	4,119	2.97	140,981	3,369	2.39
Certificates of deposit	1,516	65	4.29	694	24	3.46	2,316	65	2.81
Other deposits	16,287	312	1.92	18,131	336	1.85	14,243	178	1.25
Total deposits	162,124	4,511	2.78	167,126	4,506	2.70	166,937	3,650	2.19
Borrowings	19,025	362	1.90	17,830	315	1.77	15,678	254	1.62
Debentures	24,866	1,234	4.96	22,721	1,112	4.89	21,994	961	4.37
Other	12,490	99	0.79	16,438	110	0.67	16,026	136	0.85

Total average interest-bearing liabilities	218,505	6,206	2.84	224,115	6,043	2.70	220,635	5,001	2.27
Total average non-interest-bearing liabilities	4,780			4,722			3,879		
Total average liabilities	223,285	6,206	2.78	228,837	6,043	2.64	224,514	5,001	2.23
Total average equity	15,168			15,608			15,610		
Total average liabilities and equity	238,453	6,206	2.60%	244,445	6,043	2.47%	240,124	5,001	2.08%

(1) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.

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(2) Average balances are based on daily balances for Woori Bank and on quarterly balances for all of our other subsidiaries and our structured companies.
(3) Interest income from credit cards is derived from interest on credit card loans and credit card installment purchases.
(4) Not including other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
(5) Includes home equity loans.
(6) Includes available-for-sale financial assets and held-to-maturity financial assets.

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 (in each case excluding discontinued operations) based on changes in volume and changes in rate for 2012 compared to 2011 and 2013 compared to 2012. 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.

	2012 vs. 2011[1]			2013 vs. 2012[1]		
	Increase/(decrease) due to changes in			Increase/(decrease) due to changes in		
	Volume	Rate	Total	Volume	Rate	Total
			(in billions of Won)			
Interest-earning assets						
Due from banks	13	43	56	18	(7)	11
Loans[2]						
Commercial and industrial	(13)	(231)	(244)	142	(662)	(520)
Trade financing	25	(12)	13	(13)	(63)	(76)
Other commercial	(34)	(82)	(116)	(59)	(39)	(98)
General purpose household[3]	(88)	15	(73)	(109)	(395)	(504)
Mortgage	205	(15)	190	287	(121)	166
Credit cards	(3)	(49)	(52)	(8)	27	19
Securities						
Trading	47	(13)	34	(193)	(24)	(217)
Investment[4]	(55)	77	22	(23)	(130)	(153)
Other	33	(67)	(34)	(17)	(9)	(26)
Total interest income	130	(334)	(204)	25	(1,423)	(1,398)
Interest-bearing liabilities						
Deposits due to customers						
Demand deposits	4	3	7	(1)	12	11
Time and savings deposits	67	(62)	5	69	(819)	(750)
Certificate of deposit	(35)	(6)	(41)	56	(15)	41
Other deposits	35	(11)	24	(72)	(86)	(158)
Borrowings	(23)	(24)	(47)	(38)	(23)	(61)
Debentures	(106)	(16)	(122)	(36)	(115)	(151)
Other	31	(20)	11	(3)	29	26
Total interest expense	(27)	(136)	(163)	(25)	(1,017)	(1,042)
Net interest income	157	(198)	(41)	50	(406)	(356)

(1) The amounts for 2013 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which is effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011) have been restated to retroactively apply such change. See Item 5A. Operating Results Overview Changes in Accounting Policies.
(2) Not including other receivables and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.

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(3) Includes home equity loans.
(4) Includes available-for-sale financial assets and held-to-maturity financial assets.

Exchange Rates

The table below sets forth, for the periods and dates indicated, information concerning the noon buying rate for Won, expressed in Won per one U.S. dollar. The noon buying rate is the rate in New York City for cable transfers in foreign currencies as certified for customs purposes by the Federal Reserve Bank of New York. Unless otherwise stated, translations of Won amounts into U.S. dollars in this annual report were made at the noon buying rate in effect on December 31, 2013, which was 1,055.3 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 25, 2014, the noon buying rate was 1,041.0 = US$1.00.

	Won per U.S. dollar (noon buying rate)			
	Low	High	Average[1]	Period-End
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
2012	1,063.2	1,185.0	1,126.2	1,063.2
2013	1,050.1	1,161.3	1,094.7	1,055.3
October	1,057.5	1,075.5	1,065.9	1,060.8
November	1,054.8	1,072.7	1,061.6	1,057.8
December	1,050.1	1,061.4	1,055.6	1,055.3
2014 (through April 25)	1,035.4	1,084.3	1,063.6	1,041.0
January	1,050.3	1,083.7	1,067.1	1,080.4
February	1,062.1	1,084.3	1,071.3	1,066.0
March	1,069.9	1,079.6	1,070.5	1,064.7
April (through April 25)	1,064.1	1,058.3	1,044.2	1,041.0

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 83,624 billion, or 39.4% of our total loans, as of December 31, 2011, 80,506 billion, or 36.4% of our total loans, as of December 31, 2012 and 60,793 billion (excluding discontinued operations), or 31.4% of our total loans, as of December 31, 2013. As of December 31, 2013, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were 2,047 billion (excluding discontinued operations), representing 3.4% of such loans to those enterprises. See Item 4B. Business Overview Corporate Banking Small and Medium-Sized Enterprise Banking. We recorded charge-offs of 517 billion in respect of our Won-denominated loans to

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small- and medium-sized enterprises in 2013, compared to charge-offs of 643 billion in 2012 and 532 billion in 2011 (excluding discontinued operations for all years). According to data compiled by the Financial Supervisory Service, the industry-wide delinquency ratios for Won-denominated loans to small- and medium-sized enterprises decreased in 2012 and 2013. 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 overdue by one month or more to (2) the aggregate outstanding balance of such loans. Our delinquency ratio for such loans denominated in Won was 1.6% as of December 31, 2011, 1.3% as of December 31, 2012 and 1.5% (excluding discontinued operations) as of December 31, 2013. Our delinquency ratio may increase further in 2014 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 results of operations and financial condition. Accordingly, we may be required to take measures to decrease our exposures to these customers.

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 to establish a fast track program to provide liquidity assistance to small- and medium-sized enterprises on an expedited basis. Under the fast track program established by Woori Bank, which is currently expected to be effective through December 31, 2014, 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 2014 and beyond remain uncertain, and the Korean government may extend or renew existing or past 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 under the fast track program was 93 billion as of December 31, 2013, which represented 0.16% of its total small- and medium-sized enterprise loan portfolio 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

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among banks to lend to this segment in recent years, have led to a deterioration in the asset quality of our loans to this segment in the past and such factors may lead to a deterioration of asset quality in the future. Any such deterioration would result in increased charge-offs and higher provisioning and reduced interest and fee income from this segment, which would have an adverse impact on our financial condition and results of operations.

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

As of December 31, 2013, the total amount of loans provided by us to construction and shipbuilding companies in Korea amounted to 6,810 billion and 2,013 billion (in each case excluding discontinued operations), or 3.5% and 1.0% 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. 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 us) 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 six creditor financial institutions (including us) of companies in Korea with outstanding debt of 50 billion or more, 65 companies were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership. Of such 65 companies, 16 were construction-related companies and three were shipbuilding companies. The Financial Supervisory Service announced the results of subsequent credit risk evaluations conducted by creditor financial institutions (including us) of companies in Korea in July 2012, in which 36 companies with outstanding debt of 50 billion or more (17 of which were construction-related companies, and two of which were shipbuilding companies) were selected by such financial institutions for restructuring in the form of workout, liquidation or court receivership, and in July 2013, in which 40 companies with outstanding debt of 50 billion or more (20 of which were construction-related companies, and three of which were shipbuilding companies) were similarly selected for restructuring. There is no assurance, however, that these measures will be successful in stabilizing the Korean construction and shipbuilding industries.

The allowance 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 provisions for credit loss, 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, 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 allowances with respect to our outstanding real estate project financing loans, which could adversely affect our financial condition and results of operations.

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, 2013, 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 25,306 billion (excluding discontinued operations), or 7.5% of our total exposures. If the credit quality of our exposures to *chaebols* declines, we could incur additional provisions for credit loss, which would hurt our results of operations and financial condition. See Item 4B. Business Overview Assets and Liabilities Loan Portfolio Exposure to Chaebols.

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

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, 2013, our 20 largest exposures to corporate borrowers totaled 37,963 billion (excluding discontinued operations), which represented 11.3% 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 5,111 billion and loans in Won of 2,790 billion, representing 2.0% of our total exposures in the aggregate. Aside from exposure to the Korean government and government-related agencies, our next largest exposure was to Hyundai Heavy Industries, to which we had outstanding exposure of 1,990 billion representing 0.6% of our total exposures. Any deterioration in the financial condition of our large corporate borrowers may require us to record substantial additional allowances 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 provisions for credit loss required or the adoption of restructuring plans with which we do not agree.

As of December 31, 2013, our credit exposures to companies that were in workout or corporate restructuring amounted to 2,620 billion (excluding discontinued operations) or 0.8% of our total credit exposures, of which 1,780 billion or 67.9% was classified as substandard or below and substantially all of which was classified as impaired. As of the same date, our allowance for credit losses on these credit exposures amounted to 933 billion, or 35.6% of these exposures. These allowances may not be sufficient to cover all future losses arising from our credit exposure to these companies. Furthermore, we have other exposure to such companies, in the form of debt and equity securities of such companies held by us (including equity securities we acquired as a result of debt-to-equity conversions). Including such securities, our exposures as of December 31, 2013 to companies in workout or restructuring amounted to 2,733 billion, or 0.8% of our total exposures. Our exposures to such companies may also increase in the future, including as a result of adverse conditions in the

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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.

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

Certain member companies of the STX Group, one of Korea s top-30 *chaebols*, have been experiencing financial difficulties, including as a result of the prolonged slowdown in the Korean construction and shipbuilding industries since the global financial crisis commencing in the second half of 2008. STX Construction Co., Ltd. and STX Pan Ocean Co., Ltd. have been in court receivership with the Seoul Central District Court since April and June 2013, respectively. Certain other member companies of the STX Group, including STX Corporation, which is the holding company of the STX Group, and its subsidiaries STX Offshore & Shipbuilding Co., Ltd., STX Heavy Industries Co., Ltd. and STX Engine Co., Ltd., have commenced a voluntary, out-of-court debt restructuring program. Other member companies of the STX Group may also undergo out-of-court debt restructuring programs, file for court receivership or default on their debt in the future as a result of financial or operational difficulties or otherwise. As of December 31, 2013, our aggregate credit exposures to the member companies of the STX Group amounted to 1,268 billion (excluding discontinued operations), consisting primarily of loans extended to STX Construction, STX Corporation, STX Offshore & Shipbuilding, STX Heavy Industries and STX Engine. As of December 31, 2013, our allowance for credit losses with respect to such credit exposures to the STX Group amounted to 529 billion, of which 431 billion were with respect to credit exposures to STX Corporation, STX Offshore & Shipbuilding, STX Heavy Industries and STX Engine. Moreover, the terms of the restructuring program currently under negotiation may require the creditors, including us, to extend additional credit to such companies. To the extent that we need to set aside significant additional allowances in 2014 and beyond with respect to our current and any additional exposures to the member companies of the STX Group, such allowances may have a material adverse impact on our results of operations. Furthermore, such allowances may not be sufficient to cover all future losses arising from our exposures to these companies. In the event that the financial condition of these companies deteriorates further in the future, we may be required to record additional allowances for credit losses, as well as charge-offs and valuation or impairment losses, 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 72,914 billion as of December 31, 2011, 78,811 billion as of December 31, 2012 and 71,041 billion (excluding discontinued operations) as of December 31, 2013. Our credit card portfolio amounted to 4,592 billion as of December 31, 2011, 4,505 billion as of December 31, 2012 and 4,209 billion (excluding discontinued operations) as of December 31, 2013. As of December 31, 2013, our consumer loans and credit card receivables represented 36.7% 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 396 billion (or 0.5% of our consumer loan portfolio) as of December 31, 2011, 441 billion (or 0.6% of our consumer loan portfolio) as of December 31, 2012 and 454 billion (excluding discontinued operations) (or 0.6% of our consumer loan portfolio) as of December 31, 2013. We charged off consumer loans amounting to 180 billion in 2013, as compared to 190 billion in 2012 and 89 billion in 2011, and recorded provisions for credit loss in respect of consumer loans of 238 billion in 2013, as compared to 242 billion in 2012 and 158 billion in 2011. 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 27,935 billion, or 28.7% of our total outstanding consumer loans, as of December 31, 2011, 22,785 billion, or 28.9% of our total outstanding consumer loans, as of December 31, 2012 and 20,673 billion (excluding discontinued operations), or 29.1% of our total outstanding consumer loans, as of December 31, 2013.

In our credit card segment, outstanding balances overdue by 30 days or more amounted to 92 billion, or 2.0% of our credit card receivables, as of December 31, 2011, 87 billion, or 1.9% of our credit card receivables, as of December 31, 2012 and 76 billion (excluding discontinued operations), or 1.8% of our credit card receivables, as of December 31, 2013. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2013, these restructured loans amounted to 73 billion, or 1.7% 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 3.4% of our credit card balances as of December 31, 2013. We charged off credit card balances amounting to 172 billion in 2013, as compared to 186 billion in 2012 and 142 billion in 2011, and recorded provisions for credit loss in respect of credit card balances of 125 billion (excluding discontinued operations) in 2013, as compared to 152 billion in 2012 and 115 billion in 2011. 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. In addition, as a part of our strategy to enhance our credit card operations and increase its synergies with our other businesses, in April 2013, we effected a horizontal spin-off of the credit card business of Woori Bank. As a result, the former credit card business of Woori Bank is operated by a newly established wholly-owned subsidiary of ours, Woori Card Co., Ltd. However, we may not be able to realize the anticipated benefits of this spin-off due to various factors, including increased expenses arising from the operation of a separate credit card company, unexpected business disruptions, difficulties in reorganizing personnel and administrative functions and potential loss of customers.

A deterioration of the asset quality of our consumer loan and credit card portfolios would require us to record increased provisions for credit loss 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, 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 indefinitely. Under the pre-workout program, maturity extensions and/or interest reductions are provided for retail borrowers with total loans of less than 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 which became subject to the pre-workout program in 2013 was 19 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.

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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 record additional allowances 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

The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder.

In June 2013, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its latest plan to privatize us. The privatization plan provides for the segregation of us and our subsidiaries into three groups of entities and the disposal of the Korean government s interest in these entities, which is held through the KDIC in a series of transactions, as follows:

Kwangju Bank and Kyongnam Bank. In May 2014, we plan to establish KJB Financial Group Co., Ltd. and KNB Financial Group Co., Ltd. through a spin-off of our businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. As a result of such spin-off, KJB Financial Group will own the shares of Kwangju Bank currently held by us, and KNB Financial Group will own the shares of Kyongnam Bank currently held by us. We will no longer own any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies will be our subsidiaries, after the spin-off. See Item 4A. History and Development of the Company Privatization Plan Spin-off of Kwangju Bank and Kyongnam Bank. Following such spin-off, each of these banks will be merged with its holding company, with the banks becoming the surviving entities of such mergers. The KDIC will then sell its 56.97% ownership interest in each such merged entity. The preparatory process for these transactions commenced in July 2013. In December 2013, JB Financial Group and BS Financial Group were selected as the preferred bidders to purchase the KDIC s ownership interest in Kwangju Bank and Kyongnam Bank, respectively. No definitive agreements for the sale of the KDIC s ownership interest in Kwangju Bank and Kyongnam Bank have been entered into between the KDIC and the relevant preferred bidders.

Woori Investment & Securities and Other Subsidiaries. We have sold or plan to sell our ownership interest in Woori Investment & Securities and certain other subsidiaries, including Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial. The preparatory process for these transactions commenced in July 2013. In March 2014, we sold our 52% ownership interest in Woori Financial to KB Financial Group Inc. We also entered into share purchase agreements for (i) the sale of our 100% ownership interest in Woori Asset Management to Kiwoom Securities Co., Ltd. in February 2014, (ii) the sale of our 100% ownership interest in Woori F&I to Daishin Securities Co., Ltd. in April 2014 and (iii) the collective sale of our 37.9% ownership interest in Woori Investment & Securities, 51.6% ownership interest in Woori Aviva Life Insurance and 100% ownership interest in Woori FG Savings Bank to NongHyup Financial Group Inc. in April 2014. See Item 4A. History and Development of the Company Privatization Plan Disposal of Woori Financial, Woori Asset Management, Woori F&I , Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank.

Woori Bank. Following the spin-off of our businesses related to Kwangju Bank and Kyongnam Bank and the sales of Woori Investment & Securities and other subsidiaries as described above, we plan to merge our holding company with Woori Bank, after which the KDIC will sell all or a part of its 56.97% ownership interest in the merged entity. Our remaining subsidiaries, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank (formerly Kumho Investment Bank) and Woori Finance Research Institute, as well as any subsidiaries that have not been otherwise sold by such time, will become subsidiaries of the merged entity as a result of such merger. The timing and structure of the merger and sale remain uncertain.

However, the privatization plan with respect to us and our subsidiaries may be changed by the Korean government, or its further implementation may be delayed, depending on market conditions and other factors, and accordingly there is no guarantee that such plan will be implemented as contemplated.

The implementation of the Korean government s privatization plan will allow the KDIC to recover public funds previously injected into us and is therefore in the Korean government s interest. However, the implementation of the plan will have a significant impact on us. For example, the spin-off of Kwangju Bank and Kyongnam Bank, the disposal of Woori Investment & Securities and other non-banking subsidiaries, the loss of our status as a large and diversified financial group and the loss of the Korean government as our controlling shareholder may hurt our competitive position and may have a material adverse effect on our business, financial condition and results of operations, as well as our credit profile and credit ratings. Furthermore, the implementation of the privatization plan will lead to diversion of management attention from the day-to-day operations of, and may result in significant labor unrest at, our company and our subsidiaries. In addition, the merger of our holding company with Woori Bank and the sale of the merged entity to one or more third parties may result in a change in our management and may require the merged entity to integrate its operations and systems with those of the purchasers or their affiliates and to reorganize or reduce overlapping personnel, branches, networks and administrative functions. There is also no guarantee that the various transactions provided for in the privatization plan will not result in unintended adverse tax consequences for us and our subsidiaries, as well as our shareholders. Accordingly, the implementation of the privatization plan may have a material adverse effect on the trading price of our common stock and American depositary shares, or ADSs, and your interests as a shareholder.

We may not be successful in taking advantage of our integrated financial holding company structure.

To the extent that all or parts of the Korean government s privatization plan with respect to us and our subsidiaries are not implemented or are delayed, we may remain a diversified financial group under a financial holding company structure. See The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder. 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 may continue to standardize and upgrade the risk management operations of our subsidiaries and diversify our product offerings. 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;

- 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 expansion plans and any future mergers or acquisitions that we may pursue.

To the extent that all or parts of the Korean government s privatization plan with respect to us and our subsidiaries are not implemented or are delayed, we may remain a diversified financial group under a financial holding company structure. See The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder. Our success under a financial holding company structure depends on our ability to implement our reorganization and expansion plans and to realize the anticipated synergies, growth opportunities and cost savings from coordinating the businesses of our various subsidiaries. As part of these plans, we acquired a 51.0% interest in LIG Life Insurance in April 2008, which was subsequently renamed Woori Aviva Life Insurance. Furthermore, we purchased certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank in March 2011 and Solomon Savings Bank in September 2012 through our wholly-owned subsidiary, Woori FG Savings Bank Co., Ltd. In addition, in April 2013, we spun off the credit card business of Woori Bank into a newly established wholly-owned subsidiary, Woori Card. In June 2013, through an internal reorganization, Kumho Investment Bank (subsequently renamed Woori Investment Bank), which was previously a subsidiary of Woori Private Equity and primarily engages in corporate and investment banking activities, became a consolidated subsidiary.

As part of our strategy, we may also continue to seek opportunities to expand our overseas operations, including potentially through acquisitions and investments in Asia, the U.S. and Europe. For example, in January 2014, we completed the purchase of an additional 27% equity interest through Woori Bank (in addition to the 6% equity interest we previously acquired through our indirect subsidiary P.T. Bank Woori Indonesia) in P.T. Bank Himpunan Saudara 1906, an Indonesian commercial bank with a network of over 100 branches and offices throughout Indonesia, for a purchase price of approximately US$51 million. As a result, we became the second largest shareholder of this entity, and we plan to merge it in the future with P.T. Bank Woori Indonesia.

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 expansion plans, as well as any future integration plans that we may adopt in connection with our mergers or acquisitions or otherwise, and the realization of the anticipated benefits of our current 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 expansion plans and any future mergers or acquisitions that we pursue or undergo, and our business, results of operations and financial condition may suffer as a result.

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

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

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

To the extent that all or parts of the Korean government s privatization plan with respect to us and our subsidiaries are not implemented or are delayed, we may remain a diversified financial group under a financial holding company structure. See The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder. If so, we will remain 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.

To the extent we remain a financial holding company, our principal assets will be the shares of our subsidiaries, and our ability to pay dividends on our common stock will largely depend 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 Woori Bank to pay dividends is subject to regulatory restrictions to the extent that paying dividends would impair its 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 as well as certain unrealized profits from its net assets, in each case as of the end of the prior fiscal period;

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

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

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

In addition, we and our subsidiaries may not be able to pay dividends to the extent that such payments would result in a failure to meet any of the applicable financial targets under our respective memoranda of understanding with the 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, Woori Bank and the KDIC may result in substantial harm to us or Woori Bank.

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, including as a result of the implementation of the Korean government s privatization plan with respect to us and our subsidiaries. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from this consolidation may, by virtue of their increased size and business scope, provide significantly greater competition for us. Increased competition and continuing consolidation may lead to decreased margins, resulting in a material adverse impact on our future profitability. Accordingly, our results of operations and financial condition may suffer as a result of increasing competition in the Korean financial industry.

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

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

Other risks relating to our business

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

While the rate of deterioration of the global economy since the commencement of the global financial crisis in 2008 has slowed, with some signs of stabilization and improvement, the overall prospects for the Korean and global economy in the remainder of 2014 and beyond remain uncertain. Starting in the second half of 2011, the global financial markets have experienced significant volatility as a result of, among other things, the financial difficulties affecting many governments worldwide, in particular in Cyprus, Greece, Spain, Italy and Portugal, and the slowdown of economic growth in major emerging market economies, as well as concerns regarding the potential economic impact of the recently commenced scale-down by the U.S. Federal Reserve Board of its quantitative easing stimulus program. In addition, continuing negotiations regarding Iran s nuclear program and sanctions adopted by the international community in response, as well as political and social instability in the Ukraine and in various countries in the Middle East and Northern Africa, including in Syria, Egypt and Libya, have resulted in volatility and uncertainty in the global energy markets. Furthermore, in response to China s slowing gross domestic product growth rates that began in 2011, the Chinese government has implemented stimulus measures but the overall impact of such measures remains uncertain. 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. The value of the Won relative to major foreign currencies in general and the U.S. dollar in particular has fluctuated widely in recent years. 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 joint ventures and associates.

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

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

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

Under the current terms of the memoranda of understanding entered into among us, Woori Bank and the KDIC, we and Woori Bank are required to meet certain financial and business targets on a semi-annual and/or quarterly basis until the end of 2014. 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 have failed to meet certain of our respective targets in recent years. For example, 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, return on assets and non-performing loan ratio as of June 30, 2010 and non-performing loan ratio as of September 30, 2010. 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 the financial targets with respect to our non-performing loan ratio and Woori Bank s return on assets as of December 31, 2010. While Woori Bank failed to meet its financial targets for return on assets and non-performing loan ratio as of December 31, 2013, and we failed to meet our financial targets for return on assets, expense-to-revenue ratio and non-performing loan ratio as of December 31, 2013, the KDIC has yet to impose any sanctions on Woori Bank or us. We and Woori Bank entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in March 2014.

If we or Woori Bank 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 Woori Bank. These penalties could include the replacement of our senior management, sale of our assets, restructuring of our organization, restrictions on our business, including a suspension or transfer of our business, and elimination or reduction of existing equity. Accordingly, our failure to meet the obligations in the memoranda of understanding may result in harm to our business, financial condition and results of operations.

We 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, 2013, the aggregate amount of assets we had provided as collateral for our secured borrowings was 20,529 billion (excluding discontinued operations). As of that date, we had established allowances of 67 billion in respect of possible losses on those assets. If we are required to make payments on such assets, or to repay our secured borrowings on those assets and are unable to make sufficient recoveries on them, we may realize further losses on these assets to the extent those payments or recovery shortfalls exceed our allowances.

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

Interest rates in Korea have 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. The Bank of Korea reduced its policy rate to 3.00% in July 2012 and further reduced such rate to 2.75% in October 2012 and 2.50% in May 2013 to support Korea s economy in light of uncertain global economic prospects. 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.

We meet a significant amount of our funding requirements through short-term funding sources, which consist primarily of customer deposits. As of December 31, 2013, approximately 94.2% 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. We may also be required to seek more expensive sources of short-term and long-term funding to finance our operations. See Item 5B. Liquidity and Capital Resources Financial Condition Liquidity.

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

Most financial institutions in Korea, including our subsidiaries, have experienced periods of labor unrest. As part of our reorganization and expansion plans, 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. Furthermore, the Korean government s privatization plan with respect to us and our subsidiaries contemplates significant corporate and organizational changes, including dispositions and mergers. See Risks relating to our financial holding company structure and strategy The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder. We may also 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. Actual or threatened labor disputes may in the future disrupt the reorganization 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, 2013, we 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 1,837 billion (excluding discontinued operations) 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 Woori Bank may be required to raise additional capital if our capital adequacy ratio deteriorates or the applicable capital requirements change in the future, but we may not be able to do so on favorable terms or at all.

Under the capital adequacy requirements of the Financial Services Commission, both we and Woori Bank are currently required to maintain a minimum Tier I common equity capital adequacy ratio of 4.0%, Tier I capital adequacy ratio of 5.5% and combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. In addition, the current terms of the memoranda of understanding among us, Woori Bank and the KDIC require us and Woori Bank 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, 2013, our Tier I common equity capital, Tier I capital and combined Tier I and Tier II capital ratios were 7.39%, 10.11% and 13.01%, respectively, and Woori Bank s Tier I common equity capital, Tier I capital and combined Tier I and Tier II capital ratios were 11.05%, 12.68%, and 15.52%, respectively, which exceeded the minimum levels required by both the Financial Services Commission and such memoranda. However, our capital base and capital adequacy ratio may deteriorate in the future if our results of operations or financial condition deteriorates for any reason, or if we are not able to deploy our funding into suitably low-risk assets. To the extent that we or Woori Bank fails to maintain our capital adequacy ratios in the future, Korean regulatory authorities may impose penalties on us ranging from a warning to suspension or revocation of our licenses.

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 counter-cyclical 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 began phasing in the new set of measures, referred to as Basel III, starting from 2013. In May 2013, the Financial Services Commission announced that major Asian countries have already implemented Basel III in the first quarter of 2013 and that the proposed Basel III measures relating to stricter minimum capital ratio requirements will be implemented in Korea starting from December 1, 2013. In July 2013 and September 2013, the Financial Services Commission promulgated amended regulations implementing Basel III, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of

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Tier I common equity capital (which principally includes equity capital, capital surplus and retained earnings less reserve for credit losses) to risk-weighted assets of 3.5% and Tier I capital to risk-weighted assets of 4.5% from December 1, 2013, which minimum ratios increased to 4.0% and 5.5%, respectively, from January 1, 2014 and will increase further to 4.5% and 6.0%, respectively, from January 1, 2015. Such requirements are in addition to the pre-existing requirement for a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%, which remains unchanged. The amended regulations also contemplate an additional capital conservation buffer of 0.625% starting in 2016, with such buffer to increase in stages to 2.5% by 2019. The implementation of Basel III in Korea may have a significant effect on the capital requirements of Korean financial institutions, including us. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Financial Holding Companies Capital Adequacy and Principal Regulations Applicable to Banks Capital Adequacy.

We may be required to obtain additional capital in the future in order to remain in compliance with more stringent capital adequacy and other regulatory requirements and, as the financial holding company for our subsidiaries, we may be required to raise additional capital to contribute to our subsidiaries. However, 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 ADSs may experience a dilution of their interest, or we may experience a dilution of our interest in our subsidiaries.

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, administers and enforces certain laws and regulations (which we refer to as OFAC sanctions) 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 OFAC sanctions, including Iran. Even though non-U.S. persons generally are not directly bound by OFAC sanctions, in recent years OFAC has asserted that such non-U.S. persons can be held liable on various legal theories if they cause violations by U.S. persons by engaging in transactions completed in part in the United States (such as, for example, wiring an international payment that clears through a bank branch in New York). The European Union, also enforces certain laws and regulations that impose restrictions upon nationals and entities of, and business conducted in, member states with respect to activities or transactions with certain countries, governments, entities and individuals that are the subject of such laws and regulations, 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, among others, the Iran Sanctions Act, the Comprehensive Iran Sanctions, Accountability and Divestment Act of 2010, or CISADA, the National Defense Authorization Act for Fiscal Year 2012, or the NDAA, the Iran Threat Reduction and Syria Human Rights Act of 2012, or ITRA, various Executive Orders, and the Iran Freedom and Counter-Proliferation Act of 2012, or IFCA, (which we refer to collectively as the indirect U.S. sanctions), that provide authority for the imposition of U.S. sanctions on foreign parties that provide services (including banking services and financing) in support of certain Iranian activities in the energy, shipping and military sectors, among others. 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 pursuant to CISADA. The indirect U.S. sanctions also target foreign financial institutions that, among other things: (i) facilitate significant transactions with, or provide significant financial services to, U.S.-sanctioned Iranian persons designated in connection with terrorism or weapons of mass destruction, or linked to the Iranian Revolutionary Guard Corps; (ii) facilitate the activities of a person subject to United Nations sanctions against Iran (or any person acting on behalf of, or owned or controlled by, such a person); (iii) knowingly facilitate

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transactions connected to Iranian terrorism or weapons of mass destruction activities; or (iv) knowingly conduct or facilitate significant financial transactions for the purchase of petrochemical products from Iran. Financial institutions engaging in targeted activity could be sanctioned by termination or restriction of their ability to maintain correspondent accounts in the United States, or correspondent account transactions. The imposition of sanctions against foreign financial institutions pursuant to the indirect U.S. sanctions is not automatic, requiring further action by the U.S. administration.

The indirect U.S. sanctions were extended under the NDAA (as amended by the ITRA) to cover foreign financial institutions (whether or not owned or controlled by a foreign government) that conduct or facilitate significant transactions with the Bank Markazi Jomhouri Islami, also referred to as the Central Bank of Iran or CBI, and certain other Iranian financial institutions designated on OFAC s list of specially designated nationals, or facilitate significant transactions for the purchase of Iranian petroleum and petroleum products. Additionally, under the ITRA and subsequent OFAC regulations, foreign financial institutions that conduct or facilitate significant financial transactions involving the National Iranian Oil Company or the National Iranian Tanker Company could be subject to the above-described U.S. correspondent account sanctions or CISADA sanctions. However, an important series of exceptions applies to transactions for the purchase of goods and services produced in or substantially transformed in Iran, including Iranian petroleum or petroleum products, and certain exports of goods and services of the importing country, in each case subject to a number of conditions. First, the country with primary jurisdiction over the financial institution involved in the transaction, or the home country, must have received a periodic determination from the U.S. President that it has significantly reduced its purchases of Iranian crude oil. Second, the exempt transactions are limited to bilateral trade between the home country and Iran, involving only the sale of goods and services produced in or substantially transformed in the home country and Iranian-origin goods and services. No payment may be provided to the Iranian parties or transferred outside the home country; instead, any funds attributable to purchases of Iranian origin goods and services (including petroleum products) must be deposited in restricted accounts at the home country financial institution. The funds in these accounts can be used only (a) for purchases by Iran of goods or services originating in the home country that are exported or sold directly to Iran, or for certain purchases of food and medical goods subject to a humanitarian exemption, or (b) for transfer to a restricted account at the same home country financial institution for later use for the same permitted purposes. Any payments from the restricted account must be made to an account in the home country of a person or entity exporting goods or services to Iran that is a citizen of, or organized under the laws of, the home country and is not owned or controlled by the government of Iran. The Iranian entities involved cannot withdraw funds directly from the restricted accounts or transfer them to accounts in a third country.

On June 12, 2012, the U.S. Department of State announced that Korea was one of several countries that has significantly reduced the volume of crude oil imports from Iran. Pursuant to successive renewals, on November 29, 2013, Korea has been included again in the list of such countries, and Korean financial institutions will be eligible for the exception from the potential U.S. sanctions under the NDAA (subject to the conditions above) until May 28, 2014. Future renewals of the exception based on the significant reduction determination will depend on further reduction in Korean oil purchases from Iran and cannot be assured. However, on November 23, 2013, the U.S., along with China, France, Russia, United Kingdom and Germany (referred to as the P5+1) reached an interim agreement (referred to as the Joint Plan of Action, or the JPOA) with Iran providing for, among other things, limited, temporary, targeted, and reversible relief to certain sanctions targeting Iran. Pursuant to the JPOA, Korea would not be required to further reduce its oil purchases between January 20, 2014 and July 20, 2014 below its then-current average level of imports in order to qualify for the exemption to potential U.S. sanctions under the NDAA. (Other existing requirements for crude oil purchases from Iran remain unaffected by the JPOA.) There can be no assurance that the relief provided by the JPOA will be renewed, or will not be reversed. The JPOA also provides for the repatriation of certain Iranian restricted funds held abroad.

Under the IFCA, further sanctions and restrictions on the significant reduction exception apply. A foreign financial institution could be subject to the above-described U.S. correspondent account sanctions or CISADA sanctions if it knowingly conducts or facilitates, on or after July 1, 2013, any significant financial transaction for the sale, supply or transfer to or from Iran of goods or services used in connection with the energy, shipping and shipbuilding sectors of Iran, or on behalf of any Iranian person on OFAC s list of specially designated nationals.

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The significant reduction exception applies to purchases of petroleum or petroleum products from Iran and related exports of home country goods to Iran under the terms above, but an additional condition that the goods exported to Iran may not violate or be sanctionable under any U.S. law applies. For example, the sale of goods destined for the energy sector is not eligible for the significant reduction exception to indirect U.S. sanctions even if all other conditions are met. Additionally, under the IFCA, transactions for the sale, supply or transfer to or from Iran of natural gas are required to comply with conditions paralleling the significant reduction exemption in order to avoid the risk of U.S. sanctions. 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.

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.

In 2013, we and our affiliates engaged in the following activities relating to Iran:

Woori Bank operates certain accounts for CBI, which were opened by CBI 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 that are used for the settlement of exports of goods produced or substantially transformed in Korea to Iran by Korean exporters and Won, U.S. dollar, euro and Japanese Yen-denominated accounts (of which only the Won accounts are currently in use) that are used for the settlement of imports of oil and natural gas from Iran by Korean importers. By the terms of the service agreement (as amended) between Woori Bank and CBI, settlement of export and import transaction payments due from Iranian entities to Korean exporters or from Korean importers to Iranian entities 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. Any funds deposited for the account of Iranian entities as a result of Korean imports of oil and gas may only be used by transferring them to the Won-denominated account and then making payment to accounts of Korean persons and entities opened at financial institutions in Korea in respect of Korean-origin exports to Iran. No transfers of funds may be made from these accounts to Iran, to Iranian accounts in any third country, or for any other use. Furthermore, 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. In 2013, the total fee revenue from maintaining the CBI accounts amounted to approximately 128 million (which represented approximately 0.001% of our total revenue). As there were no expenses directly applicable to such activities under our internal management accounts, we estimate that our net income before tax from maintaining the CBI accounts also amounted to approximately 128 million (which represented approximately 0.04% of our total net income before tax). Woori Bank intends to continue maintaining the accounts opened by CBI within the current scope of services, to the extent such activity is permitted under, or otherwise exempted from, the indirect U.S. sanctions or other applicable sanctions.

Woori Bank also provides 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 and not subject to the indirect U.S. sanctions, primarily by discounting, advising on or issuing letters of credit, and to a lesser extent, issuing performance bonds on behalf of Korean contractors with respect to

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Iranian construction projects permitted under the relevant Korean sanctions and not subject to the indirect U.S. sanctions. All such transactions are settled through the accounts opened by CBI at Woori Bank as described above. In 2013, our total fee revenue from such export-import financing services amounted to approximately 3 billion (which represented approximately 0.03% of our total revenue), while our net income before tax from such activities (net of expenses directly applicable to such activities based on our internal management accounts) amounted to approximately 2 billion (which represented approximately 0.66% of our total net income before tax). Woori Bank intends to continue providing the export-import financing services with its current scope, to the extent such activity is permitted under, or otherwise exempted from, the indirect U.S. sanctions or other applicable sanctions.

Woori Bank also maintains a limited number of deposit accounts in Korea for a certain Iranian financial institution which is currently on the list of specially designated nationals maintained by OFAC (with an IFSR designation). Under Korean customer protection requirements, we are unable to provide specific information identifying this Iranian financial institution or the volume of its deposits, which constitute less than 0.05% of the Woori Bank s total deposit base. These accounts were opened at Woori Bank before such Iranian financial institution was added to OFAC s list of specially designated nationals, and under Korean law, these financial institutions are generally unable to repatriate the amounts in these accounts from Korea without specific authorization of the Korean authorities. As a Korean bank is generally prohibited under Korean law from unilaterally terminating a deposit account without the consent of the depositor, Woori Bank does not currently have plans to terminate these deposit accounts. In 2013, there were no fee revenues from maintaining such deposit accounts, and there were no expenses directly applicable to such activities under our internal management accounts.

In addition, pursuant to a request from the U.S. government received in March 2014, and authorization from the competent Korean authorities, Woori Bank released US$550 million in April 2014 from the Won-denominated accounts of CBI maintained by Woori Bank to the accounts of CBI located outside Korea. We understand that this request was in furtherance of the JPOA agreed between the P5+1 and Iran, described above.

We believe that our activities relating to Iran are not sanctionable under the applicable U.S. sanctions law and OFAC regulation, and, assuming the President of the United States continues to renew the appropriate determinations that Korea has significantly reduced its purchases of Iranian crude oil (or the temporary relief under the JPOA is extended beyond July 20, 2014), would not be sanctionable under applicable U.S. sanctions law and OFAC regulation. However, there can be no assurances that the President of the United States will make such a determination (or that the temporary relief under the JPOA will be extended), and even if the determination is renewed (or the temporary relief under the JPOA is extended), there is no guarantee that our activities relating to Iran will not be found to violate OFAC sanctions or involve sanctionable activity under the indirect U.S. sanctions, or that any other government will not determine that our activities violate applicable sanctions of other countries. Moreover, sanctions against Iran are evolving rapidly, and future changes in law could also adversely affect us.

Our business and reputation could be adversely affected if the U.S. government were to determine that our activities relating to Iran violate OFAC sanctions or involve sanctionable activity under the indirect U.S. sanctions and we are unable to resolve the U.S. government s concerns (for example, through closing the accounts opened by CBI at Woori Bank), or if any other government were to determine that our activities relating to Iran violate applicable sanctions of other countries. 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, and any other sanctions imposed could also adversely affect our business. If the U.S. government were to challenge the compatibility of our activities relating to Iran with the OFAC sanctions or the indirect U.S. 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.

Investors may also be adversely affected if we are sanctioned pursuant to the indirect U.S. sanctions or OFAC sanctions (or otherwise), resulting in their investment in our securities being restricted. If we are sanctioned under the indirect U.S. sanctions relating to transactions with Iran s energy, shipping and military sectors, such sanctions could include, among other things, 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, including payments on our securities and from selling our securities.

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 relating to companies doing business with Iran or may decide for reputational reasons to divest such investments, and some U.S. institutional investors may forego the purchase of our securities. 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 (including mobile and smartphone 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 regulatory sanctions as well as 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, although it is in the process of implementing a privatization plan with respect to us and our subsidiaries pursuant to which it intends to dispose of such common stock. See Risks relating to our financial holding company structure and strategy The implementation of the Korean government s privatization plan may have an adverse effect on us and your interests as a shareholder. So long as the Korean government remains our controlling stockholder, it will have the ability to cause us to take actions or pursue policy objectives that may conflict with the interests of our other stockholders. For example, in order to further its public policy goals, the Korean government could request that we participate with respect to a takeover of a troubled financial institution or encourage us to provide financial support to particular entities or sectors. Such actions or others that are not consistent with maximizing our profits or the value of our common stock may have an adverse impact on our results of operations and financial condition and may cause the price of our common stock and ADSs to decline.

In addition, pursuant to the terms of our memorandum of understanding with the KDIC, we are required to take any necessary action (including share buybacks and payment of dividends) to return to the KDIC the funds it injected into us and our subsidiaries, so long as such action does not cause a material adverse effect on the normalization of our business operations as contemplated by the memorandum of understanding. Any action 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.

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.

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. 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. Furthermore, as a result of adverse global and Korean economic conditions, there has been significant volatility in the stock prices of Korean companies in recent years. Future declines in the Korea Composite Stock Price Index, known as 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.

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

- difficulties in the financial sector in Europe and elsewhere and increased sovereign default risks in select countries 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, the euro or the Japanese yen exchange rates or revaluation of the Chinese renminbi), interest rates, inflation rates or stock markets;
- adverse conditions in the economies of countries and regions that are important export markets for Korea, such as the United States, Europe, Japan and China, or in emerging market economies in Asia or elsewhere;

further decreases in the market prices of Korean real estate;

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

declines in consumer confidence and a slowdown in consumer spending;

increasing levels of household debt;

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

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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 concerning 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;

the occurrence of severe health epidemics in Korea or other parts of the world;

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

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

hostilities or political or social tensions involving oil producing countries in the Middle East and Northern Africa and any material disruption in the global supply of oil or increase in the price of oil;

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

changes in financial regulations in Korea.

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

Relations between Korea and North Korea have been tense throughout Korea s modern history. The level of tension between the two Koreas has fluctuated and may increase abruptly as a result of current and future events. In particular, since the death of 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. Although Kim Jong-il s third son, Kim Jong-un, has assumed power as his father s designated successor, the long-term outcome of such leadership transition remains uncertain.

In addition, there have been heightened security concerns in recent years stemming from North Korea s nuclear weapon and long-range missile programs as well as its hostile military actions against Korea. Some of the significant incidents in recent years include the following: