WOORI BANK
Form 20-F
April 30, 2015
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As filed with the Securities and Exchange Commission on April 30, 2015

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, 2014

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 Bank

(Exact name of Registrant as specified in its charter)

Woori Bank

(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.

673,271,227 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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EXPLANATORY NOTE

Prior to November 1, 2014, we, Woori Bank, were a wholly-owned subsidiary of Woori Finance Holdings Co., Ltd. On November 1, 2014, Woori Finance Holdings merged with and into us, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings recorded in its shareholder register as of November 1, 2014 received one share of our common stock for each share of common stock of Woori Finance Holdings they held.

As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Woori Card Co., Ltd., Woori Private Equity Co., Ltd., Woori FIS Co., Ltd., Woori Investment Bank, Ltd. and Woori Finance Research Institute Co., Ltd., became our subsidiaries. Accordingly, our overall business and operations after the merger, on a consolidated basis, are substantially identical to those of Woori Finance Holdings on a consolidated basis prior to the merger. See Item 4A. History and Development of the Company Privatization Plan Merger with Woori Finance Holdings.

The merger constituted a succession for purposes of Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended, such that our common stock was deemed registered under Section 12(b) of the Exchange Act by operation of Rule 12g-3(a). Following the merger, we file reports under the Exchange Act as the successor issuer to Woori Finance Holdings.

The merger qualified as a business combination under common control for accounting purposes. Accordingly, we recognized the transferred assets and liabilities of Woori Finance Holdings at their book value and did not recognize any goodwill in connection with the merger. The consolidated financial statements included in this annual report are, as of dates and for periods prior to the date of the merger, for Woori Finance Holdings and its subsidiaries (including us) and, as of dates and for periods from and after the date of the merger, for us and our subsidiaries. For further information regarding the accounting treatment of the merger, see Note 50 of the notes to our consolidated financial statements.

Unless otherwise indicated or required by the context, we, us, our and similar terms used in this annual report refer to Woori Bank and its subsidiaries and, for periods prior to the merger, refer to Woori Finance Holdings and its subsidiaries for such periods (including Woori Bank), but excluding those accounted for as discontinued operations.

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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. Unless indicated otherwise, the financial information in this annual report has been prepared in accordance with IFRS as issued by the IASB, which is not comparable to information prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP.

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

Dispositions 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. The Korean government, which currently owns 51.04% of our outstanding common stock through the Korea Deposit Insurance Corporation, or the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. Pursuant to such plan, in May 2014, Woori Finance Holdings established KJB Financial Group Co., Ltd. and KNB Financial Group Co., Ltd. through a spin-off of its 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 became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group became the owner of the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies were its subsidiaries, after the spin-off. Following such spin-off, each of these banks was merged with its holding company, and in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively. In addition, in March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial Co., Ltd. to KB Financial Group Inc. In May 2014, Woori Finance Holdings also sold its 100.0% ownership interest in Woori Asset Management Co., Ltd. to Kiwoom Securities Co., Ltd. and sold its 100.0% ownership interest in Woori F&I to Daishin Securities Co., Ltd. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities Co., Ltd., its 51.6% ownership interest in Woori Aviva Life Insurance Co., Ltd. and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group Inc. in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial were no longer subsidiaries of Woori Finance Holdings, and it no longer owned any shares in such former subsidiaries. See Item 4A. History and Development of the Company Privatization Plan.

In light of such dispositions during 2014, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I were classified as a disposal group held for distribution or sale, and their operations were accounted for as discontinued operations, in our consolidated statements of financial position and comprehensive income as of and for the year ended December 31, 2013, as well as in our consolidated statement of comprehensive income for the year ended December 31, 2014, included in this annual report. Similarly, our consolidated statement of comprehensive income for the year ended December 31, 2012 included in this annual report was restated to account for such entities as discontinued operations. However, our consolidated statement of financial position as of December 31, 2012 included in this annual report was not so restated. Accordingly, in general, our financial information as of December 31, 2013 and 2014 and for the years ended December 31, 2010, 2011, 2012, 2013 and 2014 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, 2010, 2011 and 2012 may not be directly comparable to our financial information as of and for other dates and periods.

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In this annual report:

- 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, 2014, which was 1,090.9 = 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 and words and terms of similar substance us 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;
- 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;
- 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, 2013 and 2014 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, 2013 and 2014 have been audited by Deloitte Anjin LLC, an independent registered public accounting firm.

The Korean government, which currently owns 51.04% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. As a result of the dispositions of Woori Finance Holdings ownership interests in Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I in 2014, these former subsidiaries of Woori Finance Holdings were 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, 2013 and 2014. 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)	2014(1)(2)(3)	2014(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	9,211	US$ 8,444
Interest expense	(6,255)	(6,206)	(6,043)	(5,001)	(4,718)	(4,325)
Net interest income	4,187	4,889	4,848	4,492	4,493	4,119
Fees and commissions income	1,576	1,625	1,687	1,565	1,598	1,465
Fees and commissions expense	(420)	(444)	(498)	(639)	(681)	(624)
Net fees and commissions income	1,156	1,181	1,189	926	917	841
Dividend income	140	143	101	88	97	89
Net gain (loss) on financial assets at fair value through profit or loss	22	137	(365)	124	190	174
Net gain (loss) on available-for-sale financial assets	976	1,027	533	(85)	(69)	(63)
Impairment losses on credit loss	(2,506)	(1,923)	(1,799)	(2,277)	(1,097)	(1,006)
Other net operating expenses(5)	(2,676)	(3,163)	(2,958)	(3,028)	(3,633)	(3,331)
Operating income	1,299	2,291	1,549	240	898	823
Share of gain (loss) of joint ventures and associates	33	(39)	45	(1)	(68)	(62)
Other non-operating income (expense)	(68)	90	44	49	4	4
Non-operating income (loss)	(35)	51	89	48	(64)	(58)
Net income before income tax expense	1,264	2,342	1,638	288	834	765
Income tax expense	313	559	357	35	288	264
Net income from continuing operations	951	1,783	1,281	253	546	501
Net income (loss) from discontinued operations	650	668	566	(966)	662	606
Net income (loss)	1,601	2,451	1,847	(713)	1,208	US$ 1,107
Remeasurement of the net defined benefit liability		(18)	(51)	9	(52)	(47)
Items that will not be reclassified to profit or loss		(18)	(51)	9	(52)	(47)
Loss on available-for-sale financial assets	(205)	(375)	(349)	(51)	(75)	(69)
Share of other comprehensive income (loss) of joint ventures and associates	(21)	(38)	57	(6)	(2)	(1)
Gain (loss) on foreign currency translation of foreign operations	(19)	25	(108)	(60)	48	44
Gain (loss) on valuation of cash flow hedge	9	3	13	(2)	(27)	(25)
Items that may be reclassified to profit or loss	(236)	(385)	(387)	(119)	(56)	(51)
Other comprehensive loss, net of tax	(236)	(403)	(438)	(110)	(108)	(98)
Total comprehensive income (loss)	1,365	2,048	1,409	(823)	1,100	US$ 1,009
Net income (loss) attributable to owners	1,289	2,154	1,633	(538)	1,214	US$ 1,113
Income from continuing operations	794	1,636	1,164	162	435	399
Income (loss) from discontinued operations	495	518	469	(700)	779	714
Net income (loss) attributable to non-controlling interests	312	297	214	(175)	(6)	US$ (6)
Income from continuing operations	157	147	117	91	111	102
Income (loss) from discontinued operations	155	150	97	(266)	(117)	(108)
Comprehensive income (loss) attributable to owners	1,052	1,729	1,177	(623)	1,192	1,093
Comprehensive income (loss) attributable to non-controlling interests	313	319	232	(200)	(92)	(84)

Basic and diluted earnings (loss) from continuing and discontinued operations per share	1,599	2,670	1,993	(704)	1,621	US$	1.49
Basic and diluted earnings from continuing operations per share	985	2,027	1,411	165	536		0.49
Per common share data:							
Net income (loss) per share basic	1,599	2,670	1,993	(704)	1,621	US$	1.49
Weighted average common shares outstanding basic (in thousands)	806,013	806,013	806,013	806,013	718,265		718,265
Net income (loss) per share diluted	1,599	2,670	1,993	(704)	1,621	US$	1.49
Weighted average common shares outstanding diluted (in thousands)	806,013	806,013	806,013	806,013	718,265		718,265
Cash dividends paid per share	250	250	250		500	US$	0.46

(1) The amounts for 2010, 2011, 2012, 2013 and 2014 reflect the classification of certain former subsidiaries as discontinued operations.

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(2) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to an amendment to International Accounting Standards, or IAS 19, Employee Benefits, which became effective beginning in 2013. Corresponding amounts for 2012 and 2011 (but not for 2010) were restated to retroactively apply such change.

(3) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) were restated to retroactively apply such change.

(4) Won amounts are expressed in U.S. dollars at the rate of 1,090.9 to US$1.00, the noon buying rate in effect on December 31, 2014 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 40 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)	2014(1)(2)	2014(1)(2)(4)
	(in billions of Won)					(in millions of US$)
Assets						
Cash and cash equivalents	4,871	6,417	5,778	5,478	5,963	US$ 5,466
Financial assets at fair value through profit or loss	22,184	25,600	27,352	4,806	4,554	4,175
Available-for-sale financial assets	21,998	19,672	18,889	17,085	18,811	17,243
Held-to-maturity financial assets	19,886	20,036	18,685	12,039	13,044	11,958
Loans and receivables	216,792	235,160	250,276	211,912	223,370	204,758
Investments in joint ventures and associates	745	928	1,038	618	648	594
Investment properties	643	499	492	341	358	328
Premises and equipment	3,097	3,134	3,186	2,536	2,501	2,293
Intangible assets and goodwill	295	448	433	269	296	271
Assets held for sale	88	56	83	1	8	7
Current tax assets	9	57	39	143	5	4
Deferred tax assets	59	80	155	155	258	236
Derivative assets	131	327	281	131	196	180
Other assets(5)	379	377	415	179	145	133
Disposal group held for sale				34,685		
Disposal group held for distribution to owners				50,312		
Total assets	291,177	312,791	327,102	340,690	270,157	US$ 247,646
Liabilities						
Financial liabilities at fair value through profit or loss	8,838	9,622	10,986	2,507	2,675	US$ 2,453
Deposits due to customers	185,428	195,930	204,210	175,324	188,516	172,808
Borrowings	34,266	34,667	33,480	18,232	17,708	16,232
Debentures	29,111	29,266	27,960	21,678	24,796	22,730
Provisions	761	892	864	685	692	634
Net defined benefit liability	70	120	166	72	75	69
Current tax liabilities	174	274	179	10	299	274
Deferred tax liabilities	213	260	134	49	22	20
Derivative liabilities	5	33	38	2		
Other financial liabilities(6)	11,648	19,084	25,544	19,914	16,890	15,482
Other liabilities(7)	399	570	508	410	391	358
Liabilities directly associated with disposal group held for sale				32,048		
Liabilities directly associated with disposal group held for distribution to owners				46,882		
Total liabilities	270,913	290,718	304,069	317,813	252,064	US$ 231,060
Equity						
Owners equity						
Capital stock	4,030	4,030	4,030	4,030	3,381	US$ 3,100
Hybrid securities		309	498	498	2,539	2,327
Capital surplus	180	176	174	177	291	267
Other equity(8)	1,002	563	112	(35)	(2,393)	(2,194)
Retained earnings	10,489	12,446	13,881	13,113	14,165	12,985
Equity directly associated with disposal group held for sale				30		
Equity directly associated with disposal group held for distribution to owners				36		
Non-controlling interests	4,563	4,549	4,338	5,028	110	101
Total equity	20,264	22,073	23,033	22,877	18,093	US$ 16,586
Total liabilities and equity	291,177	312,791	327,102	340,690	270,157	US$ 247,646

(1) The amounts as of December 31, 2013 and 2014 reflect a change in our accounting policies pursuant to an amendment to IAS 19, Employee Benefits, which became effective beginning in 2013. Corresponding amounts as of December 31, 2012 and 2011 (but not as of December 31, 2010) were restated to retroactively apply such change.

(2) The amounts as of December 31, 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) were restated to retroactively apply such change.

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

(4) Won amounts are expressed in U.S. dollars at the rate of 1,090.9 to US$1.00, the noon buying rate in effect on December 31, 2014 as quoted by the Federal Reserve Bank of New York in the United States.

(5) For a description of other assets, see Note 19 of the notes to our consolidated financial statements.
(6) For a description of other financial liabilities, see Note 25 of the notes to our consolidated financial statements.
(7) For a description of other liabilities, see Note 25 of the notes to our consolidated financial statements.
(8) For a description of other equity, see Note 30 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]	2014[1][2]
	(in billions of Won except percentages)				
Return on average assets[3]	0.55%	0.90%	0.67%	(0.22)%	0.47%
Return on average equity[4]	9.19	14.20	10.46	(3.45)	6.74
Net interest spread[5]	1.75	2.01	1.94	1.83	1.72
Net interest margin[6]	1.87	2.14	2.07	1.94	1.82
Cost-to-income ratio[7]	44.86	46.12	50.79	59.30	68.38
Average equity as a percentage of average total assets	6.01	6.36	6.39	6.50	7.03
Total revenue[8]	13,156	14,027	12,847	11,185	11,027
Operating expense[9]	9,351	9,813	9,499	8,668	9,032
Operating margin[10]	3,805	4,214	3,348	2,517	1,995
Operating margin as a percentage of total revenue	28.92%	30.04%	26.06%	22.50%	18.09%

(1) The amounts for 2010, 2011, 2012, 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.
(2) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) were restated to retroactively apply such change.
(3) Represents net income attributable to owners as a percentage of average total assets. Average balances are based on daily balances for us and on quarterly balances for all of our 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 us and on quarterly balances for all of our 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 and net gain (loss) on available-for-sale 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]	2014[a][b]
	(in billions of Won)				
Interest income	10,442	11,095	10,891	9,493	9,211
Fees and commissions income	1,576	1,625	1,687	1,565	1,598
Dividend income	140	143	101	88	97
Net gain (loss) on financial assets at fair value through profit or loss	22	137	(365)	124	190
Net gain (loss) on available-for-sale financial assets	976	1,027	533	(85)	(69)
Total revenue	13,156	14,027	12,847	11,185	11,027

(a) The amounts for 2010, 2011, 2012, 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.
(b)

The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) were restated to retroactively apply such change.

(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, 2,277 billion and 1,097 billion for 2010, 2011, 2012, 2013 and 2014, respectively.

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The following table shows how operating expense is calculated:

	Year ended December 31,				
	2010[(a)]	2011[(a)]	2012[(a)(b)]	2013[(a)(b)]	2014[(a)(b)]
	(in billions of Won)				
Interest expense	6,255	6,206	6,043	5,001	4,718
Fees and commissions expense	420	444	498	639	681
Other net operating expenses[(c)]	2,676	3,163	2,958	3,028	3,633
Operating expense	9,351	9,813	9,499	8,668	9,032

(a) The amounts for 2010, 2011, 2012, 2013 and 2014 exclude certain former subsidiaries classified as discontinued operations.

(b) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) were restated to retroactively apply such change.

(c) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to an amendment to IAS 19, Employee Benefits, which became effective beginning in 2013. Corresponding amounts for 2012 and 2011 (but not for 2010) were restated to retroactively apply such change.

(10) Represents total revenue less operating expense.

Asset Quality Data

	As of December 31,				
	2010	2011	2012[(1)]	2013[(1)(2)]	2014[(1)]
	(in billions of Won, except percentages)				
Total loans[(3)]	201,235	212,492	221,028	193,766	207,077
Total non-performing loans[(4)]	6,550	3,780	3,766	4,996	3,818
Other impaired loans not included in non-performing loans[(5)]	475	238	698	690	692
Total non-performing loans and other impaired loans[(5)]	7,025	4,018	4,464	5,685	4,510
Total allowance for credit losses	4,718	3,759	3,565	3,337	2,609
Non-performing loans as a percentage of total loans	3.25%	1.78%	1.70%	2.58%	1.84%
Non-performing loans as a percentage of total assets	2.25	1.21	1.15	1.47	1.41
Total non-performing loans and other impaired loans as a percentage of total loans	3.49	1.89	2.02	2.93	2.18
Allowance for credit losses as a percentage of total loans	2.34	1.77	1.61	1.72	1.26

(1) The amounts as of December 31, 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) were restated to retroactively apply such change.

(2) The amounts as of December 31, 2013 exclude certain former subsidiaries classified 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 securitized loans purchased from third parties and held by Woori F&I, a former wholly-owned subsidiary, in the aggregate amount of 664 billion, 980 billion and 1,207 billion, respectively. While such securitized loans qualify as other impaired loans under IFRS and are accounted for as such in our consolidated financial statements, the expected losses on such securitized loans were reflected in the determination of their fair value at initial recognition. Accordingly, we believe that the exclusion of such securitized loans from other impaired loans eliminates the potential distorting effect they might have on the ratio of total non-performing loans and other impaired loans to total loans as of such dates presented in the above table. Other impaired loans as of December 31, 2013 exclude such securitized loans that were held by Woori F&I as of such date, which were classified as part of a disposal group held for sale. Woori F&I was sold in April 2014. See Item 4A. History and Development of the Company Privatization Plan.

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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, 2012			2013			2014		
	Average Balance(1)	Interest Income(2)	Average Yield	Average Balance(1)	Interest Income(2)	Average Yield	Average Balance(1)	Interest Income(2)	Average Yield
	(in billions of Won, except percentages)								
Assets									
Interest-earning assets									
Due from banks	7,781	109	1.40%	9,088	120	1.32%	11,710	104	0.89%
Loans(3)									
Commercial and industrial	80,377	4,582	5.70	82,875	4,062	4.90	89,030	3,992	4.48
Trade financing	12,935	296	2.29	12,386	220	1.78	12,371	188	1.52
Other commercial	11,030	449	4.07	9,584	351	3.66	8,997	294	3.27
General purpose household(4)	60,840	3,198	5.26	58,770	2,694	4.58	57,720	2,396	4.15
Mortgage	10,296	520	5.05	15,979	686	4.29	23,970	917	3.83
Credit cards(2)	4,310	318	7.38	4,197	337	8.03	4,678	397	8.49
Total loans	179,788	9,363	5.21	183,791	8,350	4.54	196,766	8,184	4.16
Securities									
Trading	9,221	326	3.54	3,753	109	2.90	2,639	71	2.69
Investment(5)	26,973	1,013	3.76	26,349	860	3.26	28,076	802	2.86
Total securities	36,194	1,339	3.70	30,102	969	3.22	30,715	873	2.84
Other	10,893	80	0.73	8,548	54	0.63	7,954	50	0.63
Total average interest earning assets	234,656	10,891	4.64	231,529	9,493	4.10	247,145	9,211	3.73
Total average non-interest earning assets	9,789			8,595			9,148		
Total average assets	244,445	10,891	4.46%	240,124	9,493	3.95%	256,293	9,211	3.59%

	Year ended December 31, 2012			2013			2014		
	Average Balance(1)	Interest Expense	Average Cost	Average Balance(1)	Interest Expense	Average Cost	Average Balance(1)	Interest Expense	Average Cost
	(in billions of Won, except percentages)								
Liabilities									
Interest-bearing liabilities									
Deposits due to customers									
Demand deposits	9,641	27	0.28%	9,397	38	0.40%	9,312	42	0.45%
Time and savings deposits	138,660	4,119	2.97	140,981	3,369	2.39	153,789	3,190	2.07
Certificates of deposit	694	24	3.46	2,316	65	2.81	1,984	54	2.72
Other deposits	18,131	336	1.85	14,243	178	1.25	14,386	165	1.15
Total deposits	167,126	4,506	2.70	166,937	3,650	2.19	179,471	3,451	1.92
Borrowings	17,830	315	1.77	15,678	254	1.62	16,341	252	1.54
Debentures	22,721	1,112	4.89	21,994	961	4.37	23,218	885	3.81
Other	16,438	110	0.67	16,026	136	0.85	15,382	130	0.85
Total average interest- bearing liabilities	224,115	6,043	2.70	220,635	5,001	2.27	234,412	4,718	2.01

Total average non-interest-bearing liabilities	4,722			3,879			3,861		
Total average liabilities	228,837	6,043	2.64	224,514	5,001	2.23	238,273	4,718	1.98
Total average equity	15,608			15,610			18,020		
Total average liabilities and equity	244,445	6,043	2.47%	240,124	5,001	2.08%	256,293	4,718	1.84%

(1) Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.

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(2) Interest income from credit cards is derived from interest on credit card loans and credit card installment purchases.
(3) Not including other receivables, and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
(4) Includes home equity loans.
(5) 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 2013 compared to 2012 and 2014 compared to 2013. 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.

	2013 vs. 2012 Increase/(decrease) due to changes in			2014 vs. 2013 Increase/(decrease) due to changes in		
	Volume	**Rate**	**Total**	**Volume**	**Rate**	**Total**
			(in billions of Won)			
Interest-earning assets						
Due from banks	18	(7)	11	35	(51)	(16)
Loans[1]						
Commercial and industrial	142	(662)	(520)	302	(372)	(70)
Trade financing	(13)	(63)	(76)		(32)	(32)
Other commercial	(59)	(39)	(98)	(21)	(36)	(57)
General purpose household[2]	(109)	(395)	(504)	(48)	(250)	(298)
Mortgage	287	(121)	166	343	(112)	231
Credit cards	(8)	27	19	39	21	60
Securities						
Trading	(193)	(24)	(217)	(32)	(6)	(38)
Investment[3]	(23)	(130)	(153)	56	(114)	(58)
Other	(17)	(9)	(26)	(4)		(4)
Total interest income	25	(1,423)	(1,398)	670	(952)	(282)
Interest-bearing liabilities						
Deposits due to customers						
Demand deposits	(1)	12	11		4	4
Time and savings deposits	69	(819)	(750)	306	(485)	(179)
Certificate of deposit	56	(15)	41	(9)	(2)	(11)
Other deposits	(72)	(86)	(158)	2	(15)	(13)
Borrowings	(38)	(23)	(61)	11	(13)	(2)
Debentures	(36)	(115)	(151)	53	(129)	(76)
Other	(3)	29	26	(5)	(1)	(6)
Total interest expense	(25)	(1,017)	(1,042)	358	(641)	(283)
Net interest income	50	(406)	(356)	312	(311)	1

(1) Not including other receivables and prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs.
(2) Includes home equity loans.
(3) 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, 2014, which was 1,090.9 to US$1.00. We do not intend to imply that the Won or U.S. dollar amounts referred to herein could have been or could be converted into U.S. dollars or Won, as the case may be, at any particular rate, or at all. On April 20, 2015, the noon buying rate was 1,081.3 = 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
2014	1,008.9	1,117.7	1,052.3	1,090.9
October	1,043.9	1,074.4	1,060.3	1,073.1
November	1,077.0	1,114.7	1,097.9	1,112.1
December	1,080.8	1,117.7	1,102.6	1,090.9
2015 (through April 20)	1,075.3	1,135.7	1,099.2	1,081.3
January	1,075.3	1,109.1	1,088.1	1,104.3
February	1,086.8	1,112.8	1,101.5	1,100.7
March	1,095.7	1,135.7	1,112.9	1,107.7
April (through April 20)	1,081.3	1,100.4	1,090.5	1,081.3

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 80,506 billion, or 36.4% of our total loans, as of December 31, 2012, 60,793 billion (excluding discontinued operations), or 31.4% of our total loans, as of December 31, 2013 and 62,544 billion, or 30.2% of our total loans, as of December 31, 2014. As of December 31, 2014, Won-denominated loans to small- and medium-sized enterprises that were classified as substandard or below were 1,535 billion, representing 2.5% of such loans to those enterprises. See Item 4B. Business Overview Corporate Banking Small and Medium-Sized Enterprise Banking. We recorded charge-offs of 319 billion in respect of our Won-denominated loans to small- and medium-sized enterprises in 2014, compared to charge-offs of 517 billion in 2013 and 643 billion in 2012 (excluding discontinued operations for all years). According to data compiled by the Financial Supervisory Service, the industry-wide delinquency

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ratios for Won-denominated loans to small- and medium-sized enterprises decreased in 2013 and 2014. 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 1.3% as of December 31, 2012, 1.5% as of December 31, 2013 (excluding discontinued operations) and 1.5% as of December 31, 2014. Our delinquency ratio may increase in 2015 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 us, 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 we established, which is currently expected to be effective through December 31, 2015, 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. The overall prospects for the Korean economy in 2015 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 us under the fast track program was 46 billion as of December 31, 2014, which represented 0.07% of our 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 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, 2014, the total amount of loans provided by us to construction and shipbuilding companies in Korea amounted to 5,728 billion and 1,804 billion, or 2.8% and 0.9% of our total loans, respectively. We also have other exposures to Korean construction and shipbuilding companies, including in the form of guarantees extended for the benefit of such companies and debt and equity securities of such companies held by us. In the case of shipbuilding companies, such exposures include refund guarantees extended by us on behalf of shipbuilding companies to cover their obligation to return a portion of the ship order contract amount to customers in the event of performance delays or defaults under shipbuilding contracts. In the case of construction companies, we also have potential exposures in the form of guarantees provided to us by general contractors with respect to financing extended by us for residential and commercial real estate development projects, as well as commitments to purchase asset-backed securities secured by the assets of companies in the construction industry and other commitments we enter into relating to project financing for such real estate projects which may effectively function as guarantees.

The construction industry in Korea has experienced a downturn in recent years, due to excessive investment in residential property development projects, stagnation of real property prices and reduced demand for residential property, especially in areas outside of Seoul, including as a result of the deterioration of the Korean economy. 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 and shipping 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, July 2013 and July 2014, in which, respectively:

- 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;

- 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; and

- 34 companies with outstanding debt of 50 billion or more (21 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 us, 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, 2014, five 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 24,835 billion, or 7.2% 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, 2014, our 20 largest exposures to corporate borrowers totaled 37,257 billion, which represented 10.8% 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 5,136 billion and loans in Won of 2,950 billion, representing 2.3% 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 2,243 billion representing 0.7% 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, 2014, our credit exposures to companies that were in workout or corporate restructuring amounted to 1,685 billion or 0.5% of our total credit exposures, of which 1,065 billion or 63.2% 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 427 billion, or 25.3% 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).

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Including such securities, our exposures as of December 31, 2014 to companies in workout or restructuring amounted to 1,784 billion, or 0.5% of our total exposures. Our exposures to such companies may also increase in the future, including as a result of adverse conditions in the Korean economy. In addition, in the case of borrowers that are or become subject to workout, we may be forced to restructure our credits pursuant to restructuring plans approved by other creditor financial institutions of the borrower, or to dispose of our credits to other creditors on unfavorable terms, which may adversely affect our results of operations and financial condition.

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

Certain former member companies of the STX Group, previously 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 since 2013, while certain other former member companies of the STX Group, including STX Corporation, STX Offshore & Shipbuilding Co., Ltd., STX Heavy Industries Co., Ltd. and STX Engine Co., Ltd., are undergoing voluntary out-of-court restructuring programs. As of December 31, 2014, our aggregate credit exposures to the former member companies of the STX Group amounted to 1,373 billion, consisting primarily of loans extended to STX Construction, STX Corporation, STX Offshore & Shipbuilding, STX Heavy Industries and STX Engine. As of December 31, 2014, our allowance for credit losses with respect to such credit exposures to the former STX Group member companies amounted to 347 billion, of which 293 billion were with respect to credit exposures to STX Corporation, STX Offshore & Shipbuilding, STX Heavy Industries and STX Engine. In addition, as a result of debt-to-equity swaps between such companies and their creditors as part of their restructuring programs, we acquired 15% of the outstanding shares of STX Engine in 2013 and 15% of the outstanding shares of STX Corporation in 2014 (with respect to which we recognized 59 billion of impairment loss in 2014), and such entities were accounted for as equity method investees in our consolidated financial statements as of and for the year ended December 31, 2014. Moreover, the terms of the restructuring programs of the former STX Group member companies may require the creditors, including us, to extend additional credit to such companies. Furthermore, the allowances we have established 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 78,811 billion as of December 31, 2012, 71,041 billion (excluding discontinued operations) as of December 31, 2013 and 80,217 billion as of December 31, 2014. Our credit card portfolio amounted to 4,505 billion as of December 31, 2012, 4,209 billion (excluding discontinued operations) as of December 31, 2013 and 5,114 billion as of December 31, 2014. As of December 31, 2014, our consumer loans and credit card receivables represented 38.7% and 2.5% 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 441 billion (or 0.6% of our consumer loan portfolio) as of December 31, 2012, 454 billion (excluding discontinued operations) (or 0.6% of our consumer loan portfolio) as of December 31, 2013 and 488 billion (or 0.6% of our consumer loan portfolio) as of December 31, 2014. We charged off consumer loans amounting to 115 billion in 2014 (excluding discontinued

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operations), as compared to 180 billion in 2013 and 190 billion in 2012 (in each case including discontinued operations), and recorded provisions for credit loss in respect of consumer loans of 150 billion in 2014 (excluding discontinued operations), as compared to 238 billion in 2013 and 242 billion in 2012 (in each case including discontinued operations). 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 22,785 billion, or 28.9% of our total outstanding consumer loans, as of December 31, 2012, 20,673 billion (excluding discontinued operations), or 29.1% of our total outstanding consumer loans, as of December 31, 2013 and 22,393 billion, or 27.9% of our total outstanding consumer loans, as of December 31, 2014.

In our credit card segment, outstanding balances overdue by more than one month amounted to 87 billion, or 1.9% of our credit card receivables, as of December 31, 2012, 76 billion (excluding discontinued operations), or 1.8% of our credit card receivables, as of December 31, 2013 and 85 billion, or 1.7% of our credit card receivables, as of December 31, 2014. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. As of December 31, 2014, these restructured loans amounted to 74 billion, or 1.4% 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 more than one month accounted for 3.0% of our credit card balances as of December 31, 2014. We charged off credit card balances amounting to 163 billion in 2014, as compared to 172 billion in 2013 and 186 billion in 2012, and recorded provisions for credit loss in respect of credit card balances of 158 billion in 2014, as compared to 125 billion (excluding discontinued operations) in 2013 and 152 billion in 2012 (excluding discontinued operations for all years). 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 our former credit card business. As a result, our credit card business is operated by a wholly-owned subsidiary of ours, Woori Card. 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 us, 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) we provided which became subject to the pre-workout program in 2014 was 24 billion. In addition, in March 2015, in response to increasing levels of consumer debt and amid concerns over the debt-servicing capacity of retail borrowers if interest rates were to rise, the Korean government launched, and requested Korean banks to participate in, a mortgage loan refinancing program aimed at reducing the payment burden on and improving the asset quality of outstanding mortgage loans. Under such refinancing program, for which the application period has ended, qualified retail borrowers may convert their outstanding non-amortizing floating-rate mortgage loans from Korean commercial banks (including us) into long-term amortizing fixed-rate mortgage loans with lower interest rates. The aggregate principal amount of mortgage funds that may be refinanced under such program is 34 trillion for all commercial banks, of which our share is 4.8 trillion. Our participation in such refinancing program may lead to a decrease in our interest income on our outstanding mortgage loans, as well as in our overall net interest margin. More generally, our participation in such government-led initiatives to provide financial support to retail borrowers may lead us to offer credit terms for such borrowers that we would not otherwise offer, in the absence of such initiatives, which may have an adverse effect on our results of operations and financial condition.

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

A substantial portion of our consumer loans is secured by real estate, the values of which have fluctuated significantly in recent years. Although it is our general policy to lend up to 70% 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 70% 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 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 Woori Finance Holdings and its former subsidiaries, including us. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Korean government s interest in these entities held through the KDIC in a series of transactions, many of which have been completed. Such transactions included the following:

- *Kwangju Bank and Kyongnam Bank.* In May 2014, Woori Finance Holdings established KJB Financial Group and KNB Financial Group through a spin-off of its 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 became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group became the owner of the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies were its subsidiaries, after the spin-off. Following such spin-off, each of these banks was merged with its holding company, and in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.

- *Woori Investment & Securities and Other Subsidiaries.* In March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group. In May 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities and sold its 100.0% ownership interest in Woori F&I to Daishin Securities. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial were no longer subsidiaries of Woori Finance Holdings, and it no longer owned any shares in such former subsidiaries.

Woori Bank. In November 2014, Woori Finance Holdings merged with and into us. As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. In December 2014, the KDIC sold 40,143,022 shares of our common stock in a private sale in Korea, as a result of which its ownership interest in us was reduced to 51.04%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.
See Item 4A. History and Development of the Company Privatization Plan.

The implementation of the Korean government s privatization plan, including the merger of Woori Finance Holdings with and into us and the expected sale of the KDIC s remaining ownership interest in us to third parties, is likely to have a significant impact on us. For example, the loss of the Korean government as our indirect controlling shareholder, the spin-off of Kwangju Bank and Kyongnam Bank and the loss of our former affiliates such as Woori Investment & Securities that had complementary businesses may have a material adverse effect on our credit profile and credit ratings, as well as our business, financial condition and results of operations. Furthermore, the sale of a controlling interest in us to one or more third parties may result in a change in our business, management, strategy, capital structure and assets and liabilities and lead to diversion of management attention, a loss of customers and labor unrest. In addition, such sale may require us to integrate our 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 completed under 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 generate sufficient additional fees to achieve our revenue diversification strategy.

An important element of our overall strategy is increasing our fee income in order to diversify our revenue base, in anticipation of greater competition and declining lending margins. Historically, our primary source of revenues has been net interest income from our banking operations. To date, except for credit card, trust management, bancassurance and currency transfer fees (including foreign exchange-related commissions) 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.

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 and the proposed merger of Hana Bank into Korea Exchange Bank in the second half of 2015. Moreover, in 2014, pursuant to the implementation of the Korean government s privatization plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the KDIC s ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group, respectively. See Item 4A. History and Development of the Company Privatization Plan. We expect that consolidation in the financial industry will continue. Other financial institutions may seek to acquire or merge with other entities, and the financial institutions resulting from such 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.

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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 2015 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 southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies; and
- political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

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

Our failure to meet the financial and other business targets set forth in current terms of the memorandum of understanding between us and the KDIC may result in substantial harm to us.

Under the current terms of the memorandum of understanding entered into between us and the KDIC, we are required to meet certain financial and business targets on a quarterly basis until the end of 2015. See Item 4A. History and Development of the Company History Memoranda of Understanding. As a result of deteriorating economic and financial market conditions in Korea and globally, both we and Woori Finance

Holdings 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 us in connection with our failure to meet our 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 Woori Finance Holdings and us, as well as a warning on our former chief executive officer, in connection with the failure of Woori Finance Holdings and us to meet the financial targets with respect to Woori Finance Holdings non-performing loan ratio and our return on assets as of December 31, 2010. In April 2014, the KDIC imposed an institutional warning on Woori Finance Holdings and us in connection with Woori Finance Holdings failure to meet its financial targets for return on assets, expense-to-revenue ratio and non-performing loan ratio as of December 31, 2013 and our failure to meet our financial targets for return on assets and non-performing loan ratio as of December 31, 2013. In April 2015, the KDIC imposed an institutional warning on us in connection with our failure to meet our financial target for expense-to-revenue ratio as of December 31, 2014. We entered into a new business normalization plan with new restructuring measures and financial targets with the KDIC in March 2015.

If we fail to satisfy our obligations under the current or any new memorandum of understanding in the future, the Korean government, through the KDIC, may impose penalties on us. 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 memorandum 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, 2014, the aggregate amount of assets we had provided as collateral for our secured borrowings was 7,025 billion. As of that date, we had established allowances of 42 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 the past. 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 gradually increased its policy rate in 2010 and 2011 by a total of 125 basis points, to 3.25%. However, the Bank of Korea reduced its policy rate to 2.00% through a series of reductions from 2012 to 2014 to support Korea s economy in light of the slowdown in Korea s growth and uncertain global economic prospects. In March 2015, the Bank of Korea further reduced its policy rate to an unprecedented 1.75% amid deflationary concerns and interest rate cuts by central banks around the world. All else being equal, an increase in interest rates in the future could lead 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

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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, 2014, 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 have experienced periods of labor unrest. In recent years, we have transferred or merged some of the business operations of our subsidiaries and affiliates into one or more entities and implemented other forms of corporate and operational restructuring, including in connection with the Korean government s privatization plan with respect to Woori Finance Holdings and its former subsidiaries. See Risks relating to our 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, 2014, 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 2,773 billion in our trading and investment securities portfolio. The market value of these securities could decline significantly due to various factors, including future increases in interest rates or a deterioration in the financial and economic condition of any particular issuer or of Korea in general. Any of these factors individually or a combination of these factors would require us to write down the fair value of these debt securities, resulting in impairment losses. Because the secondary market for corporate bonds in Korea is not fully developed, the market value of many of these securities as reflected on our consolidated statements of financial position is determined by references to suggested prices posted by Korean rating agencies, which measure prices based on observable market data. These valuations, however, may differ significantly from the actual value that we could realize in the event we elect to sell these securities. As a result, we may not be able to realize the full marked-to-market value at the time of any such sale of these securities and thus may incur additional losses.

We 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, we are currently required to maintain a minimum Tier I common equity capital adequacy ratio of 4.5%, Tier I capital adequacy ratio of 6.0% and combined Tier I and Tier II capital adequacy ratio of 8.0%, on a consolidated basis. In addition, the current terms of the memorandum of understanding between us and the KDIC requires us to meet specified capital adequacy ratio requirements. See Item 4A. History and Development of the Company History Memoranda of Understanding. As of December 31, 2014, our Tier I common equity capital, Tier I capital and combined Tier I and Tier II capital ratios were 8.96%, 10.69% and 14.25%, respectively, which exceeded the minimum levels required by both the Financial Services Commission and such memorandum. 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 fail 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.

The current capital adequacy requirements of the Financial Services Commission are derived from a new set of bank capital measures, referred to as Basel III, which the Basel Committee on Banking Supervision initially introduced in 2009 and began phasing in starting from 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 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 were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased 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 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. However, we may not be able to obtain additional capital on favorable terms, or at all. Our ability 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 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.

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 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 had significantly reduced the volume of crude oil imports from Iran. Pursuant to successive renewals, on November 29, 2013, Korea was included again in the list of such countries, and Korean financial institutions were 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 would depend on further reduction in Korean oil purchases from Iran and could not 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 was not 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.) The JPOA was renewed on July 19, 2014 and again on November 24, 2014 by mutual consent of the P5+1 and Iran, extending the temporary sanctions relief provided under the JPOA until June 30, 2015. There can be no assurance that the relief provided by the JPOA will be further 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. 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 2014, we engaged in the following activities relating to Iran:

We operate certain accounts for CBI, which were opened by CBI pursuant to a service agreement entered into by us 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 us 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 with us are not permitted without such prior certification and clearance. In 2014, the total fee revenue from maintaining the CBI accounts amounted to approximately 121 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 121 million (which represented approximately 0.01% of our total net income before tax). We intend 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.

We also provide limited export-import financing services to Korean exporters and importers in connection with their trade transactions with Iran that are permitted under the relevant Korean sanctions 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 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 with us as described above. In 2014, our total fee revenue from such export-import financing services amounted to approximately 2 billion (which represented approximately 0.02% 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 1 billion (which represented approximately 0.12% of our total net income before tax). We intend 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.

We also maintain 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. These accounts were opened with us 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, we do not currently have plans to terminate these deposit accounts. In 2014, 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 requests from the U.S. government received in 2014, and authorization from the competent Korean authorities, we released US$550 million in April 2014 and US$490 million in November 2014 from the Won-denominated accounts of CBI maintained by us to the accounts of CBI located outside Korea. We understand that such requests were in furtherance of the JPOA agreed between the P5+1 and Iran described above. Furthermore, in January and February 2015, pursuant to the JPOA, which was renewed on November 24, 2014, we released US$490 million each on four different occasions, or a total of US$1,960 million, from the Won-denominated accounts of CBI maintained by us to the accounts of CBI located outside Korea.

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 June 30, 2015), 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 with us), 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 with us, 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

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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 shareholder, is controlled by the Korean government and could cause us to take actions or pursue policy objectives that may be against your interests.

The Korean government, through the KDIC, currently owns 51.04% of our outstanding common stock, although it is in the process of implementing a privatization plan with respect to us pursuant to which it intends to dispose of such common stock. See Risks relating to our 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 shareholder, it will have the ability to cause us to take actions or pursue policy objectives that may conflict with the interests of our other shareholders. 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, 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 shareholders 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 to be financially unsound.

If the Financial Services Commission deems our financial condition to be unsound, or if we 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:

- Admonitions or warnings with respect to our officers;
- capital increases or reductions;
- assignments of contractual rights and obligations relating to financial transactions;
- a suspension of performance by our officers of their duties and the appointment of receivers;
- disposals of property holdings or closures of subsidiaries or branch offices or downsizing;
- stock cancellations or consolidations;
- mergers with other financial institutions;
- acquisition of us by a third party; 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.

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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;
- 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, including the recent Ebola outbreak;

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.

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

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

- In March 2013, North Korea stated that it had entered into a state of war with Korea, declaring the 1953 armistice invalid, and set its artillery units at a heightened level of readiness for deployment, to protest against the joint military drills performed by Korea and United States and additional international sanctions imposed on North Korea for its missile and nuclear tests;

- North Korea renounced its obligations under the Nuclear Non-Proliferation Treaty in January 2003 and conducted three rounds of nuclear tests from October 2006 to February 2013, which increased tensions in the region and elicited strong objections worldwide. In response, the United Nations Security Council unanimously passed resolutions that condemned North Korea for the nuclear tests and expanded sanctions against North Korea, most recently in March 2013.

- In December 2012, North Korea launched a satellite into orbit using a long-range rocket, despite concerns in the international community that such a launch would be in violation of the agreement with the United States as well as United Nations Security Council resolutions that prohibit North Korea from conducting launches that use ballistic missile technology.

- In March 2010, a Korean naval vessel was destroyed by an underwater explosion, killing many of the crewmen on board. In November 2010, North Korea fired more than one hundred artillery shells that hit Korea s Yeonpyeong Island near the Northern Limit Line, causing casualties and significant property damage. The Korean government condemned North Korea for the attacks and vowed stern retaliation should there be further provocation.

North Korea s economy also faces severe challenges, which may further aggravate social and political pressures within North Korea. There can be no assurance that the level of tensions affecting the Korean peninsula will not escalate in the future. Any further increase in tensions, which may occur, for example, if North Korea experiences a leadership crisis, high-level contacts between Korea and North Korea break down or military hostilities occur, could have a material adverse effect on the Korean economy and on our business, financial condition and results of operations and the market value of our common stock and ADSs.

Labor unrest in Korea may adversely affect our operations.

Economic difficulties in Korea or increases in corporate reorganizations and bankruptcies could result in layoffs and higher unemployment. Such developments could lead to social unrest and substantially increase government expenditures for unemployment compensation and other costs for social programs. According to statistics from the Korea National Statistical Office, the unemployment rate was 3.2% in 2012 and decreased to 3.1% in 2013, but increased to 3.5% in 2014. Further increases in unemployment and any resulting labor unrest in the future could adversely affect our operations, as well as the operations of many of our customers and their ability to repay their loans, and could adversely affect the financial condition of Korean companies in general, depressing the price of their securities. Furthermore, the government s privatization plan with respect to us contemplates the sale of its ownership interest in us to a third party, which may lead to labor unrest among our employees. See Item 4A. History and Development of the Company Privatization Plan. Any of these developments may have an adverse effect on our financial condition and results of operations.

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Risks relating to our common stock and ADSs

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

The KDIC currently owns 345,142,556 shares, or 51.04%, of our outstanding common stock. In the future, the KDIC may choose to sell large blocks of our common stock publicly or privately to a strategic or financial investor, including for the purpose of recovering the public funds it injected into us. For example, in September 2004, the KDIC sold approximately 45 million shares of our common stock, which constituted 5.7% of our outstanding common stock, and in June 2007, the KDIC disposed of approximately 40 million shares of our common stock, which constituted 5.0% of our outstanding common stock. In addition, in November 2009, the KDIC sold approximately 56 million shares of our common stock, which constituted 7.0% of our outstanding common stock, and in April 2010, the KDIC disposed of approximately 73 million shares of our common stock, which constituted 9.0% of our outstanding common stock. Most recently, in December 2014, the KDIC sold 40,143,022 shares of our common stock, which constituted 5.9% of our outstanding common stock.

In June 2013, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its latest plan to privatize Woori Finance Holdings and its former subsidiaries, including us. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Korean government s interest in these entities held through the KDIC in a series of transactions, many of which have been completed. See Risks relating to our 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. The privatization plan may be changed by the Korean government, or its further implementation may be delayed, depending on market conditions and other factors. We do not know precisely when, how or what percentage of our shares owned by the KDIC will ultimately be disposed of, or to whom such shares will be sold. As a result, we cannot predict the impact of any such transactions on us or our stock prices. The implementation of the Korean government s privatization plan with respect to us, including future sales of our common stock by the KDIC or the possibility that such transactions may occur, could adversely affect the prevailing market prices of our common stock and ADSs.

Ownership of our common stock is restricted under Korean law.

Under the Bank Act, a single shareholder, together with its affiliates, is generally prohibited from owning more than 10.0% of a nationwide bank s total issued and outstanding shares with voting rights or more than 15.0% of a regional bank s total issued and outstanding shares with voting rights, with the exception of certain shareholders that are non-financial business group companies, whose applicable limit has been reduced from 9.0% to 4.0% pursuant to an amendment of the Bank Act which became effective on February 14, 2014. To the extent that the total number of shares of our common stock (including those represented by ADSs) that you and your affiliates own together exceeds the applicable limits, you will not be entitled to exercise the voting rights for the excess shares, and the Financial Services Commission may order you to dispose of the excess shares within a period of up to six months. Failure to comply with such an order would result in an administrative fine of up to 0.03% of the book value of such shares per day until the date of disposal. Non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4.0% of such bank s outstanding voting shares, unless they obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4.0% limit, in which case they may acquire beneficial ownership of up to 10.0% of such nationwide bank s outstanding voting shares. See Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Restrictions on Bank Ownership. In addition, if the shareholding of any single shareholder, together with its affiliates, increases to a level exceeding the applicable limits as a result of a merger, such shareholder will be restricted from exercising its voting rights in respect of shares in excess of the applicable limit pursuant to the Bank Act from the effective date of the merger, and will be required to dispose of such excess shares within three years after such effective date.

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

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

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

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

You will not have preemptive rights in some circumstances.

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

- we have requested in a timely manner that those rights be made available to such holders;

- the depositary has received the documents that are required to be delivered under the terms of the deposit agreement, which may include confirmation that a registration statement filed by us under the U.S. Securities Act of 1933, as amended (the Securities Act), is in effect with respect to those shares or that the offering and sale of those shares is exempt from or is not subject to the registration requirements of the Securities Act; and

- the depositary determines, after consulting with us, that the distribution of rights is lawful and commercially feasible.

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

We are under no obligation to file any registration statement with the U.S. Securities and Exchange Commission or to endeavor to cause such a registration statement to be declared effective. Moreover, we may not be able to establish an exemption from registration under the Securities Act. Accordingly, you may be unable to participate in our rights offerings and may experience dilution in your holdings. If a registration statement is required for you to exercise preemptive rights but is not filed by us or is not declared effective, you will not be

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able to exercise your preemptive rights for additional ADSs and you will suffer dilution of your equity interest in us. If the depositary is unable to sell rights that are not exercised or not distributed or if the sale is not lawful or feasible, it will allow the rights to lapse, in which case you will receive no value for these rights.

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

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

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

Our common stock is listed on the KRX KOSPI Market, which has a smaller market capitalization and is more volatile than the securities markets in the United States and many European countries. The market value of ADSs may fluctuate in response to the fluctuation of the trading price of shares of our common stock on the KRX KOSPI Market. The KRX KOSPI Market has experienced substantial fluctuations in the prices and volumes of sales of listed securities and the KRX KOSPI Market has prescribed a fixed range in which share prices are permitted to move on a daily basis. The KOSPI was 2,146.71 on April 20, 2015. There is no guarantee that the stock prices of Korean companies will not decline again in the future. Like other securities markets, including those in developed markets, the Korean securities market has experienced problems including market manipulation, insider trading and settlement failures. The recurrence of these or similar problems could have a material adverse effect on the market price and liquidity of the securities of Korean companies, including our common stock and ADSs, in both the domestic and the international markets.

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

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

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

Other Risks

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

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

Item 4. INFORMATION ON THE COMPANY

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

Overview

We were originally established in 1899 and operated as the Commercial Bank of Korea until 1998. In 1998, we were acquired by the KDIC and merged with another commercial bank, Hanil Bank, which had been established in 1932. We were the surviving entity in the merger and were renamed Hanvit Bank.

In March 2001, the KDIC established a financial holding company, Woori Finance Holdings, to consolidate its ownership interests in four commercial banks (including us), one merchant bank and a number of smaller financial institutions. See History. We were renamed Woori Bank in 2002 and operated as a wholly-owned subsidiary of Woori Finance Holdings through October 2014. Woori Finance Holdings registered its common stock under Section 12(b) of the Exchange Act and listed ADSs representing its common stock on the New York Stock Exchange, in September 2003.

On November 1, 2014, Woori Finance Holdings merged with and into us, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings received one share of our common stock for each share of common stock of Woori Finance Holdings they held. See Privatization Plan Merger with Woori Finance Holdings. The merger constituted a succession for purposes of Rule 12g-3(a) under the Exchange Act, such that our common stock was deemed registered under Section 12(b) of the Exchange Act by operation of Rule 12g-3(a). Following the merger, we file reports under the Exchange Act as the successor issuer to Woori Finance Holdings.

Our legal and commercial name is Woori Bank. Our registered office and corporate headquarters are located at 51, Sogong-ro, Jung-gu, Seoul, Korea. Our telephone number is 822-2002-3000. Our website address is *http://www.wooribank.com.*

History

Establishment of Woori Finance Holdings

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

In December 2000, the Korean government wrote down the capital of Hanvit Bank, as well as Kyongnam Bank, Kwangju Bank and Peace Bank of Korea, to zero. It accomplished this by having the Financial Services Commission issue a capital reduction order with respect to these banks pursuant to its regulatory authority. The Korean government also decided to recapitalize these banks by injecting public funds through the KDIC. In December 2000, the KDIC made initial capital injections to Hanvit Bank (2,764 billion), Kyongnam Bank (259 billion), Kwangju Bank (170 billion) and Peace Bank of Korea (273 billion), in return for new shares of those banks. The KDIC also agreed to make additional capital contributions, not involving the issuance of new shares, in the future, which were made in September 2001 to Hanvit Bank (1,877 billion), Kyongnam Bank (94 billion), Kwangju Bank (273 billion) and Peace Bank of Korea (339 billion).

In addition, in November 2000, the KDIC established Hanaro Merchant Bank to restructure substantially all of the assets and liabilities of four failed merchant banks (Yeungnam Merchant Banking Corporation, Central Banking Corporation, Korea Merchant Banking Corporation and H&S Investment Bank) that were transferred to it.

In March 2001, the KDIC established Woori Finance Holdings as a new financial holding company and transferred all of the shares in each of Hanvit Bank, Kyongnam Bank, Kwangju Bank, Peace Bank of Korea and Hanaro Merchant Bank held by the KDIC to Woori Finance Holdings in exchange for its newly issued shares. Accordingly, Woori Finance Holdings became the sole owner of those entities. Woori Finance Holdings subsequently listed its common stock on the KRX KOSPI Market in June 2002.

Our name was changed from Hanvit Bank to Woori Bank in May 2002.

Memoranda of Understanding

In connection with the recapitalization by the KDIC of the entities (including us) that became subsidiaries of Woori Finance Holdings and its establishment, such entities, Woori Finance Holdings and the KDIC entered into a number of memoranda of understanding, including the following.

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

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

Since 2000, we have periodically entered into new business normalization plans with the KDIC, with new restructuring measures and financial targets. The other entities did so as well, until their merger or disposition by Woori Finance Holdings, pursuant to which their memoranda of understanding with the KDIC were terminated. See   Privatization Plan.   In February and October 2010 and February 2011, the KDIC imposed institutional warnings on us in connection with our failure to meet our 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, as well as a warning on our former chief executive officer, in connection with our failure to meet the financial targets with respect to our return on assets as of December 31, 2010. In April 2014, the KDIC imposed an institutional warning on us in connection with our failure to meet our financial targets for return on assets and non-performing loan ratio as of December 31, 2013. In April 2015, the KDIC imposed an institutional warning on us in connection with our failure to meet our financial target for expense-to-revenue ratio as of December 31, 2014.

In March 2015, we entered into a new one-year business normalization plan with the KDIC. See   Recent Developments with the KDIC.

Memorandum of Understanding between Woori Finance Holdings and the KDIC. In July 2001, Woori Finance Holdings entered into a memorandum of understanding with the KDIC, which included a business normalization plan. Under this memorandum, Woori Finance Holdings was required to take all actions necessary (including making dividend payments and share buybacks and cancellations) to return the public funds injected into it by the KDIC, but only to the extent that these actions would not cause a material adverse effect on the contemplated normalization of its operations.

The business normalization plan included in the memorandum of understanding set financial targets for Woori Finance Holdings capital ratio, return on total assets, expense-to-revenue ratio, operating income per employee, non-performing loan ratio and holding company expense ratio, which it was required to meet on a semi-annual basis. Woori Finance Holdings periodically entered into a new business normalization plan with the KDIC, with new restructuring measures and financial targets. In April 2011, the KDIC imposed an institutional warning on Woori Finance Holdings in connection with its failure to meet its financial targets with respect to its non-performing loan ratio as of December 31, 2010. In April 2013, the KDIC elected not to impose any penalties on Woori Finance Holdings for its failure to meet its financial target for its expense-to-revenue ratios for 2012, in light of the strength of its overall performance with respect to the other financial targets. In April 2014, the KDIC imposed an institutional warning on Woori Finance Holdings in connection with its failure to meet its financial targets for return on assets, expense-to-revenue ratio and non-performing loan ratio as of December 31, 2013. Woori Finance Holdings memorandum of understanding with the KDIC was terminated in connection with its merger with and into us in November 2014. See Privatization Plan.

Recent Developments with the KDIC. In March 2015, we entered into a new one-year business normalization plan with the KDIC that included new restructuring measures and financial targets. Such new plan also provides that the calculation of income amounts (including adjusted operating income) to be used in measuring compliance with financial targets for return on total assets, expense-to-revenue ratio and operating income per employee as of or for the year ending December 31, 2015 will be subject to an adjustment to negate the effect of any decrease in our net interest margin. In addition, the plan primarily dealt with ways to increase labor and cost efficiency, strengthen our risk management system, improve our asset quality and improve our profitability. The other terms of the previously agreed memorandum of understanding remain unchanged.

Our one-year business normalization plan sets forth five financial targets for fiscal year 2015 that we are required to meet, with quarterly targets being set internally by us in accordance with the year-end targets. Our targets for fiscal year 2015 are set forth in the following table:

	2015			
	March	**June**	**September**	**December**
Capital adequacy ratio(1)	10.0	10.0	10.0	10.0
Return on total assets(2)	0.06	0.08	0.10	0.32
Expense-to- revenue ratio(3)	67.9	66.9	65.9	50.9
Operating income per employee (in billions of Won)(4)	2.4	2.5	2.6	3.1
Non-performing loan ratio(5)	2.2	2.1	2.0	1.3

(1) For a description of how the capital adequacy ratio is calculated, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Capital Adequacy.

(2) Represents the ratio of net income to total assets.

(3) Represents the ratio of general and administrative expenses to adjusted operating income. Adjusted operating income represents operating income (i) before subtracting impairment losses on credit loss and general and administrative expenses and (ii) after subtracting (a) gain (loss) on valuation and disposal of equity investment securities and (b) income from Won-denominated loans with respect to the amount of such loans that exceeds the amount of Won-denominated deposits.

(4) Represents the ratio of adjusted operating income to total number of full-time employees.

(5) Represents the ratio of total credits classified as substandard or below to total credits, in each case, net of allowances.

We expect that we will be required to enter into new business normalization plans with the KDIC every year so long as the KDIC remains our largest shareholder.

Reorganization and Expansion Plans

Following its establishment and its acquisition of its subsidiaries, Woori Finance Holdings developed a reorganization and integration plan designed to reorganize the corporate structure of some of its subsidiaries and integrate its operations under a single management structure. As part of this plan:

- From December 2001 through February 2002, Peace Bank of Korea was restructured by:
  - splitting off its commercial banking operations and merging them into us;
  - changing the name of Peace Bank of Korea to Woori Credit Card; and
  - transferring our credit card operations to Woori Credit Card.
- In March 2003, the credit card operations of Kwangju Bank were transferred to Woori Credit Card.
- In August 2003, Woori Investment Bank was merged with Woori Bank.

In succeeding years, Woori Finance Holdings adopted plans to further reorganize and expand its operations, including through mergers, acquisitions and investments. Pursuant to such reorganization and expansion plans:

- In March 2004, Woori Credit Card was merged with Woori Bank.
- In October and December 2004, Woori Finance Holdings acquired an aggregate 27.3% voting interest in LG Investment & Securities Co., Ltd., which was subsequently renamed Woori Investment & Securities.
- In May 2005, Woori Finance Holdings acquired a 90.0% interest in LG Investment Trust Management Co., Ltd., which was subsequently renamed Woori Asset Management.
- In October 2005, we established Woori Private Equity as a consolidated subsidiary.
- In April 2008, Woori Finance Holdings acquired a 51.0% interest in LIG Life Insurance Co., Ltd., which was subsequently renamed Woori Aviva Life Insurance.
- In March 2011, Woori Finance Holdings acquired certain assets and assumed certain liabilities of Samhwa Mutual Savings Bank through a newly established subsidiary, Woori FG Savings Bank.
- In September 2012, Woori FG Savings Bank acquired certain assets and assumed certain liabilities of Solomon Mutual Savings Bank.

In October 2012, Woori Finance Holdings established Woori Finance Research Institute, which engages in economic and finance research, management consulting, and management and sales of intellectual property rights.

In April 2013, we effected a spin-off of our credit card business into a newly established wholly-owned subsidiary of Woori Finance Holdings, Woori Card.

In June 2013, through an internal reorganization, Kumho Investment Bank (previously a subsidiary of Woori Private Equity and subsequently renamed Woori Investment Bank), in which Woori Finance Holdings held a 41.6% interest, became its consolidated subsidiary, and 70 billion of new capital was injected into such entity.

In January 2014, we completed the purchase of an additional 27% equity interest (in addition to the 6% equity interest we previously acquired through our subsidiary PT. Bank Woori Indonesia) in PT. Bank Himpunan Saudara 1906, an Indonesian commercial bank with a network of over 100 branches and offices throughout Indonesia. In December 2014, PT. Bank Woori Indonesia merged with and into PT. Bank Himpunan Saudara 1906. The merged entity, in which we hold a 74.0% equity interest, was renamed PT. Bank Woori Saudara Indonesia 1906 and became our consolidated subsidiary.

Privatization Plan

In June 2013, the Korean government, through the Public Funds Oversight Committee of the Financial Services Commission, announced its latest plan to privatize Woori Finance Holdings and its former subsidiaries, including us. The privatization plan provided for the segregation of such entities into three groups and the disposal of the Korean government s interest in these entities held through the KDIC in a series of transactions, many of which have been completed. Such transactions include:

Kwangju Bank and Kyongnam Bank. In May 2014, Woori Finance Holdings established KJB Financial Group and KNB Financial Group through a spin-off of its 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 became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group became the owner of the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies were its subsidiaries, after the spin-off. See Spin-off of Kwangju Bank and Kyongnam Bank. Following such spin-off, each of these banks was merged with its holding company, and in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.

Woori Investment & Securities and Other Subsidiaries. In March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group. In May 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities and sold its 100.0% ownership interest in Woori F&I to Daishin Securities. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial were no longer subsidiaries of Woori Finance Holdings, and it no longer owned any shares in such former subsidiaries. See Disposal of Woori Financial, Woori Asset Management, Woori F&I, Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank.

Woori Bank. In November 2014, Woori Finance Holdings merged with and into us. As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. In December 2014, the KDIC sold 40,143,022 shares of our common stock in a private sale in Korea, as a result of which its ownership interest in us was reduced to 51.04%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future. See Merger with Woori Finance Holdings.

The implementation of the Korean government s privatization plan, including the merger of Woori Finance Holdings with and into us and the expected sale of the KDIC s remaining ownership interest in us to third parties, is likely to have a significant impact on us. For example, the loss of the Korean government as our indirect controlling shareholder, the spin-off of Kwangju and Kyongnam Bank and the loss of our former affiliates such as Woori Investment & Securities that had complementary businesses) may have a material adverse effect on our credit profile and credit ratings, as well as our business, financial condition and results of operations. Furthermore, the sale of a controlling interest in us to one or more third parties may result in a change in our business, management, strategy, capital structure and assets and liabilities and lead to diversion of management attention, a loss of customers and labor unrest. In addition, such sale may require us to integrate our operations and systems with those of the purchasers or their affiliates and to reorganize or reduce overlapping personnel, branches, networks and administrative functions.

Spin-off of Kwangju Bank and Kyongnam Bank

In August 2013, the board of directors of Woori Finance Holdings approved a plan to establish two new companies, KJB Financial Group and KNB Financial Group (which we refer to as the New Holdcos), through a spin-off (which we refer to as the Spin-off) of its businesses related to the holding of the shares and thereby controlling the business operations of Kwangju Bank and Kyongnam Bank, respectively. The Spin-off was approved at an extraordinary general meeting of the shareholders of Woori Finance Holdings held on January 28, 2014 and was effected on May 1, 2014. After the Spin-off, KJB Financial Group owned the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group owned the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor the New Holdcos were its subsidiaries, after the Spin-off. Following the Spin-off, each of these banks was merged with the relevant New Holdco.

As of December 31, 2013, Kwangju Bank had total assets of 18,873 billion (including total loans of 13,447 billion) and total liabilities of 17,429 billion (including total deposits of 13,531 billion), on a consolidated basis. For the year ended December 31, 2013, Kwangju Bank s interest income amounted to 832 billion, its interest expense amounted to 417 billion and its net income amounted to 61 billion, on a consolidated basis. As of December 31, 2013, Kyongnam Bank had total assets of 31,714 billion (including total loans of 24,572 billion) and total liabilities of 29,454 billion (including total deposits of 23,773 billion), on a consolidated basis. For the year ended December 31, 2013, Kyongnam Bank s interest income amounted to 1,324 billion, its interest expense amounted to 672 billion and its net income amounts to 130 billion, on a consolidated basis.

The Spin-off was accomplished through a pro rata distribution of common stock, par value 5,000 per share, of KJB Financial Group and KNB Financial Group to the holders of Woori Finance Holdings common stock. Specifically, on May 21, 2014, each holder of Woori Finance Holdings common stock as of the record date of April 30, 2014 received 0.0637 shares of common stock of KJB Financial Group and 0.0973 shares of common stock of KNB Financial Group for each share of Woori Finance Holdings common stock held by such holder. Holders of Woori Finance Holdings ADSs did not receive any common stock of the New Holdcos in connection with the Spin-off. Instead, the depositary for Woori Finance Holdings American depositary receipts program sold the New Holdcos common stock it received in the Spin-off, in a riskless principal capacity, and distributed the net proceeds of such sale to holders of the ADSs, after deducting applicable fees and expenses of the depositary and applicable taxes and other governmental charges. Neither of the New Holdcos issued any ADSs or established any American depositary receipts program following the Spin-off.

As a result of the Spin-off, pursuant to share consolidation procedures under Korean law, the outstanding shares of Woori Finance Holdings common stock were consolidated as of May 1, 2014 such that the shareholders recorded in its shareholder register as of the record date of April 30, 2014 were allotted 0.8390 shares of its common stock in exchange for each previously outstanding share. Woori Finance Holdings outstanding ADSs were also consolidated as of May 1, 2014 such that holders of such ADSs recorded in the transfer books of the depositary as of the record date of April 30, 2014 were allotted 0.8390 ADSs in exchange for each previously outstanding ADS.

In October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively.

Disposal of Woori Financial, Woori Asset Management, Woori F&I , Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank

On March 20, 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group for the sale price of 280 billion. As of December 31, 2013, Woori Financial had total assets of 3,940 billion and total liabilities of 3,528 billion on a consolidated basis. For the year ended December 31, 2013, Woori Financial s operating revenues amounted to 338 billion, and its net income amounted to 54 billion, on a consolidated basis.

In May 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities for the sale price of 76 billion. As of December 31, 2013, Woori Asset Management had total assets of 85 billion and total liabilities of 17 billion on a consolidated basis. For the year ended December 31, 2013, Woori Asset Management s operating revenues amounted to 32 billion, and its net income amounted to 4 billion, on a consolidated basis.

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In June 2014, Woori Finance Holdings sold its 100.0% ownership interest in Woori F&I to Daishin Securities for the sale price of 368 billion. As of December 31, 2013, Woori F&I had total assets of 1,641 billion and total liabilities of 1,336 billion on a consolidated basis. For the year ended December 31, 2013, Woori F&I s operating revenues amounted to 184 billion, and its net income amounted to 49 billion, on a consolidated basis.

In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group Inc. for the sale price of 1,039 billion in a collective sale. As of December 31, 2013, Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank had total assets of 29,982 billion, 4,466 billion and 823 billion, respectively, on a consolidated basis, and total liabilities of 26,534 billion, 4,309 billion and 699 billion, respectively, on a consolidated basis. For the year ended December 31, 2013, operating revenues of Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank amounted to 4,027 billion, 982 billion and 85 billion, respectively, on a consolidated basis, and net income of Woori Investment & Securities and Woori Aviva Life Insurance amounted to 48 billion and 2 billion, respectively, on a consolidated basis. For the year ended December 31, 2013, Woori FG Savings Bank had a net loss of 34 billion.

Merger with Woori Finance Holdings

In July 2014, we entered into a merger agreement with Woori Finance Holdings, providing for the merger of Woori Finance Holdings with and into us. The merger agreement was approved by the shareholders of Woori Finance Holdings at an extraordinary general meeting held on October 10, 2014. Pursuant to the merger agreement, Woori Finance Holdings merged with and into us on November 1, 2014, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings recorded in its shareholder register as of November 1, 2014 received one share of our common stock for each share of common stock of Woori Finance Holdings they held.

As a result of the merger, the other remaining subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. Accordingly, our overall business and operations after the merger, on a consolidated basis, are substantially identical to those of Woori Finance Holdings on a consolidated basis prior to the merger.

The following chart sets forth the corporate organization of Woori Finance Holdings and its subsidiaries prior to the merger:

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The following chart sets forth our corporate organization following the merger:

We were an unlisted corporation prior to the merger, while Woori Finance Holdings had its common stock listed on the KRX KOSPI Market and its ADSs listed on the New York Stock Exchange. Following the merger, we became newly listed on the KRX KOSPI Market and succeeded to Woori Finance Holdings listing on the New York Stock Exchange.

The shareholders of Woori Finance Holdings were entitled to exercise appraisal rights with respect to its common stock held by them at a purchase price of 12,422 per share, in accordance with Korean law. The period for exercise of appraisal rights started on October 11, 2014 and ended on October 21, 2014, during which shareholders exercised appraisal rights with respect to an aggregate of 64,832 shares of common stock of Woori Finance Holdings. The payment of the purchase price for such common stock held by the exercising shareholders was made on October 30, 2014, in the aggregate amount of 805 million. Such common stock purchased by Woori Finance Holdings was exchanged for our common stock in the merger and will be held by us as treasury shares. We are required under applicable Korean law to dispose of such treasury shares within five years after the date of their acquisition.

Pursuant to the Korean government s privatization plan, in December 2014, the KDIC sold 40,143,022 shares of our common stock in a private sale in Korea, as a result of which its ownership interest in us was reduced to 51.04%. We expect the KDIC to sell all or a portion of the remaining shares of our common stock it owns to one or more purchasers in the future.

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

We are the second-largest commercial bank in Korea, in terms of total assets (including loans) as of December 31, 2014. Our operations include a broad range of businesses, including corporate banking, consumer banking, investment banking, capital markets activities and other businesses (including credit card operations). We provide a wide range of products and services to our customers, which mainly comprise small- and medium-sized enterprises and individuals, as well as some of Korea s largest corporations. As of December 31, 2014, we had, on a consolidated basis, total assets of 270,157 billion, total liabilities of 252,064 billion and total equity of 18,093 billion.

The Korean government, which currently owns 51.04% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. See Item 4A. History and Development of the Company Privatization Plan. In light of their dispositions under the privatization plan, which were completed during 2014, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I were classified as a disposal group held for distribution or sale, and their operations were accounted for as discontinued operations. Unless expressly stated otherwise, our financial information as of December 31, 2013 and 2014 and for the years ended December 31, 2010, 2011, 2012, 2013, and 2014 set forth below does not include financial data with respect to such discontinued operations, while our financial information as of December 31, 2010, 2011 and 2012 set forth below includes financial data with respect to such discontinued operations.

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

Strong and long standing relationships with corporate customers. Historically our operations concentrated on large corporate customers. As a result, we believe that we have strong relationships with many of Korea s leading corporate groups, and we are the main creditor bank to 16 of the 41 largest Korean corporate borrowers. Further enhancing our corporate loan portfolio is our ability to lend to small- and medium-sized enterprise customers. As of December 31, 2014, we had approximately 188,236 small- and medium-sized enterprise borrowers.

Large and loyal retail customer base. With respect to our consumer banking operations, we have the third-largest deposit base among Korean commercial banks, and over 20 million retail customers, representing about half of the Korean adult population. Of these customers, more than half are active customers, meaning that they have an account with us with a balance of at least 100,000 or have transacted business with us at least once during the last six months.

Extensive distribution and marketing network. We serve our customers primarily through one of the largest banking networks in Korea, comprising approximately 993 branches and 7,167 ATMs and cash dispensers. We also operate 10 dedicated corporate banking centers and approximately 81 general managers for our large corporate customers and approximately 969 relationship managers stationed at 819 branches (as well as 593 additional non-stationed employees who serve as relationship managers as needed) for our small- and medium-sized enterprise customers. In addition, we have Internet and mobile banking platforms to enhance customer convenience, reduce service delivery costs and allow our branch staff to focus on marketing and sales.

Strong capital base. As of December 31, 2014, our consolidated equity totaled 18.1 trillion, and our total capital adequacy ratio was 14.25%. Our management team carefully coordinates our capital and dividend plans to ensure that we optimize our capital position. We believe our strong capital base and coordinated capital management enable us to support growth of our core businesses and to pursue franchise-enhancing initiatives such as selective investments and acquisitions.

Strong and experienced management team. Our management team comprises experienced managers as well as leading financial industry professionals who have been recruited from outside our bank to complement our team. In December 2014, Kwang-Goo Lee assumed the role of our president and chief executive officer. We believe that the extensive experience of many members of our management team in the financial sector will help us to continue to strengthen our operations.

Strategy

We aim to continue to build our position as a leading universal banking and financial services company in Korea, with a view to having our business platform and operating structure match or outperform those of leading global financial institutions. The key elements of our strategy are as follows:

Further improve our asset quality and strengthen our risk management practices. We were one of the earliest and most aggressive banks in Korea to actively reduce non-performing loans through charge-offs and sales to third parties. Since 2002, we have taken various measures to facilitate the disposal of our substandard or below loans. As a result of these and other initiatives, our ratio of non-performing loans to total loans has decreased significantly over the past decade and was 1.84% as of December 31, 2014.

One of our highest priorities is to maintain our strong asset quality and enhance our risk management practices on an ongoing basis. We created a centralized risk management organization, installed a comprehensive warning and monitoring system, adopted uniform loan loss provisioning policies and implemented an advanced credit evaluation system called CREPIA. Following the global financial crisis, we undertook a review of our credit risk management procedures with outside consultants in 2009, as well as undertaking further reviews of our risk management infrastructure and systems in 2009 and 2010, in order to develop and implement various measures to further standardize and improve our risk management procedures and systems.

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

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

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

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

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

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

Enhance operational efficiencies and synergies. We have been seeking to improve our operational efficiency and synergies and reduce our expenses by integrating our businesses, unifying our business procedures, eliminating duplication, centralizing processes and procurement, implementing continuous automation and migrating to low cost distribution channels. In 2009, we established a centralized information technology center to increase information sharing and synergies among our different business operations.

Over the past decade, we have also sought to strengthen our operational platform by introducing M-Banking, a mobile banking platform that enhances customer service and generates transaction fees, as well as our Win-CMS service, which provides an integrated electronic cash management system and in-house banking platform for our corporate customers.

We believe that the integration of our accounting, information technology and other back-office systems allows us to further eliminate redundant functions and equipment and reduce our long-term expense. We also believe that these measures, together with our effort to encourage migration of our mass market customers to low-cost alternative channels will, reduce our costs and enhance our operating efficiencies. We are also continuing our efforts to maximize synergies among our businesses.

***Develop and increase productivity of our professional workforce*.** We aim to retain the most qualified and highly-trained professionals in the market, and we intend to continue to focus on the development and training of our core professionals. In order to boost employee morale and productivity, we aim to create an environment that nurtures development and growth, and we will continue to emphasize performance-based incentive programs to recognize high performers on both an individual and business unit level. In addition, a rigorous ethics management program and related measures have been instituted to reduce operational risk and help ensure compliance with our internal standards and policies.

Corporate Banking

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

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

	As of December 31,					
	2012		2013[1]		2014	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
	(in billions of Won, except percentages)					
Loans[2] :						
Small- and medium-sized enterprise[3]	80,506	36.4%	60,793	31.4%	62,544	30.2%
Large corporate[4]	38,489	17.4	38,520	19.9	38,879	18.8
Others[5]	18,718	8.5	19,203	9.9	20,323	9.8
Total	137,713	62.3%	118,516	61.2%	121,746	58.8%
Deposits:						
Small- and medium-sized enterprise	29,783	14.6%	30,472	17.4%	33,924	18.0%
Large corporate	66,269	32.5	50,453	28.8	56,164	29.8
Total	96,052	47.1%	80,925	46.2%	90,088	47.8%
Number of borrowers:						
Small- and medium-sized enterprise	228,084		185,245		188,236	
Large corporate	2,811		3,283		3,325	

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

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

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

(4) Loans to companies that are not small- and medium-size enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations, and typically including companies that have assets of 12 billion or more and are therefore subject to external audit under the External Audit Act of Korea. See Large Corporate Banking.

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

Corporate loans we provide consist principally of the following:

- *working capital loans*, which are loans used for general working capital purposes, typically with a maturity of one year or less, including notes discounted and trade finance; and

- *facilities loans*, which are loans to finance the purchase of materials, equipment and facilities, typically with a maturity of three years or more.

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

Small- and Medium-Sized Enterprise Banking

We use the term small- and medium-sized enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations. Under the amended Small and Medium Industry Basic Act of Korea, which became effective on February 3, 2015, and related regulations, in order to qualify as a small- and medium-sized enterprise, (i) the enterprise s total assets at the end of the immediately preceding fiscal year must be less than 500 billion, (ii) the enterprise must meet the average or annual sales revenue standards prescribed by the Enforcement Decree of the Small and Medium Industry Basic Act, and (iii) the enterprise must meet the standards of management independence from ownership as prescribed by the Enforcement Decree of the Small and Medium Industry Basic Act, including non-membership in a conglomerate as defined in the Monopoly Regulations and Fair Trade Act. However, even if an enterprise that qualified as a small- and medium-sized enterprise under the Small and Medium Industry Basic Act prior to the amendments thereof no longer meets the definition due to such amendments, such enterprise shall continue to be deemed a small- and medium-sized enterprise until March 31, 2018. Furthermore, certified social enterprises (as defined in the Social Enterprise Promotion Act of Korea), as well as cooperatives or federations of cooperatives (as defined in the Framework Act on Cooperatives), that satisfy the requirements prescribed by the Small and Medium Industry Basic Act may qualify as small- and medium-sized enterprises. The small- and medium-sized enterprise segment of the corporate banking market has grown significantly in recent years, including as a result of government measures to encourage lending to these enterprises. As of December 31, 2014, 30.5% of our small- and medium-sized enterprise loans were extended to borrowers in the manufacturing industry, 17.1% were extended to borrowers in the retail and wholesale industry, and 6.6% were extended to borrowers in the hotel, leisure and transportation industries.

We service our small- and medium-sized enterprise customers primarily through our network of branches and small- and medium-sized enterprise relationship managers. As of December 31, 2014, we had stationed one or more relationship managers at 819 branches, of which 387 were located in the Seoul metropolitan area. The relationship managers specialize in servicing the banking needs of small- and medium-sized enterprise customers and concentrate their marketing efforts on developing new customers in this segment. As of December 31, 2014, we had a total of 969 small- and medium-sized enterprise relationship managers stationed at our branches (as well as 593 non-stationed employees who serve as relationship managers as needed).

In addition to increasing our dedicated staffing and branches, our strategy for this banking segment is to identify promising industry sectors and to develop and market products and services targeted towards customers in these sectors. We have also developed in-house industry specialists who can help us identify leading small-

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and medium-sized enterprises in, and develop products and marketing strategies for, these targeted industries. In addition, we operate customer loyalty programs for our most profitable small- and medium-sized enterprise customers and provide them with benefits and services such as preferential rates, free seminars and workshops and complementary invitations to cultural events.

Lending Activities. We provide both working capital loans and facilities loans to our small- and medium-sized enterprise customers. As of December 31, 2014, working capital loans and facilities loans accounted for 59.4% and 36.5%, respectively, of our total small- and medium-sized enterprise loans. As of December 31, 2014, we had approximately 188,236 small- and medium-sized enterprise borrowers.

As of December 31, 2014, secured loans and loans guaranteed by a third party accounted for 65.3% and 10.6%, respectively, of our small- and medium-sized enterprise loans. As of December 31, 2014, approximately 75.5% of the secured loans were secured by real estate and 2.5% were secured by deposits. Working capital loans generally have a maturity of one year, but may be extended on an annual basis for an aggregate term of three to five years if periodic payments are made. Facilities loans have a maximum maturity of ten years.

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

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

Pricing. We establish the pricing for our small- and medium-sized enterprise loan products based principally on transaction risk, our cost of funding and market considerations. Our lending rates are generally determined using our CREPIA system. We use our CREPIA system to manage our lending activities, and input data gathered from loan application forms, credit scores of borrowers and the appraisal value of collateral provided by external valuation experts into the CREPIA system and update such information periodically to reflect changes in such information. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. We measure transaction risk using factors such as the credit rating assigned to a particular borrower and the value and type of collateral. Our system also takes into account cost factors such as the current market interest rate, opportunity cost and cost of capital, as well as a spread calculated to achieve a target rate of return. Depending on the price and other terms set by competing banks for similar borrowers, we may reduce the interest rate we charge to compete more effectively with other banks. Loan officers have limited discretion in deciding what interest rates to offer, and significant variations require review at higher levels. As of December 31, 2014, approximately 70.3% of our small- and medium-sized enterprise loans had interest rates that varied with reference to current market interest rates.

Large Corporate Banking

Our large corporate customers consist of companies that are not small- and medium-size enterprises as defined in the Small and Medium Industry Basic Act of Korea and related regulations, and typically include companies that have assets of 12 billion or more and are therefore subject to external audit under the External Audit Act of Korea. As a result of our history and development, we remain the main creditor bank to many of Korea s largest corporate borrowers.

In terms of our outstanding loan balance, as of December 31, 2014, 43.6% of our large corporate loans were extended to borrowers in the manufacturing industry, 24.5% were extended to borrowers in the finance and insurance industry, and 8.3% were extended to borrowers in the retail and wholesale industry.

We service our large corporate customers primarily through our network of dedicated corporate banking centers and general managers. We operate 10 dedicated corporate banking centers, all of which are located in the Seoul metropolitan area. Each center is staffed with one or more general managers, and certain centers are headed by a senior general manager. Depending on the center, each such manager is responsible for large corporate customers that either are affiliates of a particular *chaebol* or operate in a particular industry or region. As of December 31, 2014, we had a total of 81 general managers who focus on marketing to and managing the accounts of large corporate customers.

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

Lending Activities. We provide both working capital loans and facilities loans to our large corporate customers. As of December 31, 2014, working capital loans (including domestic usuance, bills bought and securities sold under repurchase agreements) and facilities loans accounted for 70.3% and 14.5%, respectively, of our total large corporate loans.

Loans to large corporate customers may be secured by real estate or deposits or be unsecured. As of December 31, 2014, secured loans and loans guaranteed by a third party accounted for 16.6% and 6.0%, respectively, of our large corporate loans. Since a relatively low percentage of our large corporate loan portfolio is secured by collateral, we may be required to establish larger allowances for credit losses with respect to any such loans that become non-performing or impaired. See Assets and Liabilities Asset Quality of Loans Loan Loss Provisioning Policy. As of December 31, 2014, approximately 58.4% of the secured loans were secured by real estate and approximately 3.8% were secured by deposits. Working capital loans generally have a maturity of one year but may be extended on an annual basis for an aggregate term of three to five years. Facilities loans have a maximum maturity of ten years.

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

Pricing. We determine the pricing of our loans to large corporate customers in the same way that we determine the pricing of our loans to small- and medium-sized enterprise customers. See Corporate Banking Small- and Medium-Sized Enterprise Banking Pricing. As of December 31, 2014, approximately 84.4% of these loans had interest rates that varied with reference to current market interest rates.

Consumer Banking

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

We classify our consumer banking customers based on their individual net worth and contribution to our consumer banking operations into four groups: high net worth; mass affluent; middle class; and mass market. We differentiate our products, services and service delivery channels with respect to these segments and target our marketing and cross-selling efforts based on this segmentation. With respect to the high net worth and mass affluent segments, we have established private banking operations to better service customers in these segments.

See Private Banking Operations. With respect to the middle class segment, we intend to use our branch-level sales staff to maximize the overall volume of products and services we provide. With respect to the mass market segment, we have focused on increasing our operating efficiency by encouraging customers to migrate to low-cost alternative service delivery channels, such as the Internet, call centers, mobile banking and ATMs.

Lending Activities

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

	As of December 31,					
	2012		2013[1]		2014	
	Amount[2]	% of Total Loans[3]	Amount[2]	% of Total Loans[3]	Amount[2]	% of Total Loans[3]
	(in billions of Won, except percentage)					
General purpose household loans	31,978	14.5%	25,357	13.1%	25,889	12.5%
Mortgage loans	16,409	7.4	19,952	10.3	28,988	14.0
Home equity loans	30,424	13.8	25,732	13.3	25,340	12.2
Total	78,811	35.7%	71,041	36.7%	80,217	38.7%

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

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

(3) Total loans do not include other receivables and are before the deduction of allowance for credit losses and present value discount and the reflection of deferred origination costs.

Our consumer loans consist of:

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

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

For secured loans, including mortgage and home equity loans, we generally lend up to 70% of the collateral value (except in areas of high speculation designated by the government where we generally limit our lending to 40% to 70% of the appraised value of collateral) minus the value of any lien or other security interest that is prior to our security interest. In calculating the collateral value for real estate for such secured consumer loans (which principally consists of residential properties), we generally use the fair value of the collateral as appraised by Korea Investors Service which is collated in our CREPIA system. We generally revalue collateral on a periodic basis. As of December 31, 2014, the revaluation period was every year for real estate (with apartments being revalued every month, subject to the availability of certain specified market value information), every year for equipment, every month for deposits and every week for stocks listed on a major Korean stock exchange.

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

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

General Purpose Household Loans

Our general purpose household loans may be secured by real estate (other than homes), deposits or securities. As of December 31, 2014, approximately 18,595 billion, or 71.8% of our general purpose household loans were unsecured, although some of these loans were guaranteed by a third party. Overdraft loans are primarily unsecured and typically have a maturity between one and three years, and the amount of such loans has been steadily declining. As of December 31, 2014, this amount was approximately 90 million.

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

Our interest rates also incorporate a margin based on, among other things, the type of collateral (if any), priority with respect to any security, our target loan-to-value ratio and loan duration. We also can adjust the applicable rate based on current or expected profit contribution of the customer. Our lending rates are generally determined by our CREPIA system. The applicable interest rate is determined at the time of the loan. We also charge a termination fee in the event a borrower repays the loan prior to maturity. As of December 31, 2014, approximately 63.7% of our general purpose household loans had floating interest rates.

Mortgage and Home Equity Lending

We provide customers with a number of mortgage and home equity loan products that have flexible features, including terms, repayment schedules, amounts and eligibility for loans. The maximum term of our mortgage and home equity loans is typically 35 years. Most of our mortgage and home equity loans have an interest-only payment period of ten years or less. With respect to these loans, we determine the eligibility of borrowers based on the borrower s personal information, transaction history and credit history using our CREPIA system. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval. The eligibility of a borrower that is participating in a housing lottery will depend on proof that it has paid a deposit or can obtain a guarantee from a Korean government-related housing fund. We receive fee income related to the origination of loans, including fees relating to loan processing and collateral evaluation.

As of December 31, 2014, approximately 74.1% of our mortgage and home equity loans were secured by residential or other property, 17.1% of our mortgage and home equity loans were guaranteed by Korean government-related housing funds and 7.0% of our mortgage and home equity loans, contrary to general practices in the United States, were unsecured (although the use of proceeds from mortgage and home equity loans is restricted for the purpose of financing home purchases and some of these loans were guaranteed by a third party). One reason that a portion of our mortgage and home equity loans are unsecured is that we, along with other Korean banks, provide advance loans to borrowers for the down payment of new housing (particularly apartments) that is in the process of being built. Once construction is completed, which may take several years, these mortgage and home equity loans become secured by the new housing purchased by these borrowers. As of December 31, 2014, we had issued unsecured construction loans relating to housing where construction was not completed in the amount of 3,799 billion. For the year ended December 31, 2014, the average initial loan-to-value ratio of our mortgage loans and home equity loans was approximately 59.7% and 56.3%, respectively, compared to 57.3% and 52.8% (excluding discontinued operations) for the year ended December 31, 2013. The average loan-to-value ratio of our mortgage loans and home equity loans as of December 31, 2014 was approximately 55.0% and 52.5%, respectively, compared to 53.3% and 51.7% (excluding discontinued operations) as of December 31, 2013.

Pricing. The interest rates for our mortgage and home equity loans are determined on essentially the same basis as our general purpose household loans, except that for mortgage and home equity loans we place significantly greater weight on the value of any collateral that is being provided to secure the loan. The base rate we use in determining the interest rate for our mortgage and home equity loans is identical to the base rate we use to determine pricing for our general purpose household loans. As of December 31, 2014, approximately 59.9% of our outstanding mortgage and home equity loans had floating interest rates.

Private Banking Operations

Our private banking operations aim to service our high net worth and mass affluent retail customers who individually maintain a deposit balance of at least 100 million with us. As of December 31, 2014, we had over 131,700 customers who qualified for private banking services, representing 0.7% of our total retail customer base. Of our total retail customer deposits of 69 trillion as of December 31, 2014, high net worth and mass affluent customers accounted for 36.4%.

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

We have 582 branches that offer private banking services. These branches are staffed by 594 private bankers, and almost all of the branches are located in metropolitan areas, including Seoul.

We also operate an advisory center in Seoul for our private banking clients, which employs 15 specialists advising on matters of law, tax, real estate, risk assessment and investments.

Deposit-Taking Activities

As of December 31, 2014, we were the third-largest deposit holder among Korean banks, in large part due to our nation-wide branch network. The balance of our deposits from retail customers was 70,614 billion as of December 31, 2012, 65,124 billion (excluding discontinued operations) as of December 31, 2013 and 68,821 billion as of December 31, 2014, which constituted 34.6%, 37.1% and 36.5%, respectively, of the balance of our total deposits.

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

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

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

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

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

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

The following table sets forth the percentage of our total retail and corporate deposits represented by each deposit product category as of December 31, 2014:

Demand Deposits	Time Deposits	Savings Deposits	Installment Deposits	Certificates of Deposit
9.49%	59.28%	30.82%	0.02%	0.39%

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

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

- *Apartment application time deposits*, which are special purpose time deposit accounts providing the holder with a preferential right to subscribe for new private apartment units under the Housing Act. This law sets forth various measures supporting the purchase of houses and the supply of such houses by construction companies. These products accrue interest at a fixed rate for one year, and at an adjustable rate after one year. Deposit amounts per account range from 2 million to 15 million depending on the size and location of the dwelling unit. These deposit products target high and middle income households. The Korean government has announced that new accounts may no longer be opened starting July 2015.

- *Apartment application installment savings deposits*, which are monthly installment savings programs providing the holder with a preferential right to subscribe for new private apartment units under the Housing Act. These deposits require monthly installments of 50,000 to 500,000, have maturities of between three and five years and accrue interest at fixed or variable rates depending on the term. The Korean government has announced that new accounts may no longer be opened starting July 2015.

- *Apartment application savings account deposits*, which are monthly installment savings programs providing the holder with a preferential right to subscribe for new national housing units constructed under the Housing Act or mid-sized, privately constructed national housing units. These deposits are available only to heads of household who do not own a home. These deposits require monthly installments of 20,000 to 100,000, terminate when the holder is selected as a subscriber for a housing unit and accrue interest at fixed rates. The Korean government has announced that new accounts may no longer be opened starting July 2015.

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

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

The Depositor Protection Act provides for a deposit insurance system where the KDIC guarantees to depositors the repayment of their eligible bank deposits. The deposit insurance system insures up to a total of

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50 million per depositor per bank. See Supervision and Regulation Principal Regulations Applicable to Banks Deposit Insurance System. We pay a quarterly premium of 0.02% of our average deposits and a quarterly special contribution of 0.025% of our average deposits, in each case for the relevant quarter. For the year ended December 31, 2014, we paid an aggregate of 259 billion of such premiums and contributions.

Branch Network and Other Distribution Channels

We had a total of 993 banking branches in Korea as of December 31, 2014, which was one of the most extensive networks of branches among Korean commercial banks. Recently, demand in Korea for mutual funds and other asset management products as well as bancassurance products has been rising. These products require an extensive sales force and customer interaction to sell, further emphasizing the need for a large branch network. As a result, an extensive branch network is important to attracting and maintaining retail customers, as they generally conduct a significant portion of their financial transactions through bank branches. We believe that our extensive branch network in Korea helps us to maintain our retail customer base, which in turn provides us with a stable and relatively low cost funding source.

The following table presents the geographical distribution of our banking branch network in Korea as of December 31, 2014:

	Total	
	Number	**% of Total**
Area		
Seoul	463	47%
Six largest cities (other than Seoul)	173	17
Other	357	36
Total	993	100%

In order to maximize access to our products and services, we have established an extensive network of ATMs and cash dispensers, which are located in branches as well as unmanned outlets. We had 7,079 ATMs and 88 cash dispensers as of December 31, 2014.

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

	For the year ended December 31,		
	2012	**2013**	**2014**
ATMs[(1)]:			
Number of transactions (millions)	389	397	393
Fee income (billions of Won)	44	45	44
Telephone banking:			
Number of users	6,389,640	6,482,707	6,510,178
Number of transactions (millions)	132	106	107
Fee income (billions of Won)	3	3	3
Internet banking:			
Number of users	11,369,531	12,707,113	13,809,085
Number of transactions (millions)	5,293	5,603	6,065
Fee income (billions of Won)	117	120	123

(1) Includes cash dispensers.

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

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Our automated telephone banking system offers a variety of services, including inter-account fund transfers, balance and transaction inquiries and customer service inquiries. We also operate a call center that handles calls from customers, engages in telemarketing and assists in our collection efforts.

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

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

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

Credit Cards

We offer credit card products and services mainly to consumers and corporate customers in Korea. In April 2013, as a part of our strategy to enhance our credit card operations and increase its synergies with our other businesses, we effected a horizontal spin-off of our credit card business. As a result, our former credit card business is operated by a wholly-owned subsidiary, Woori Card. As of December 31, 2014, Woori Card s market share based on transaction volume was approximately 8.3%, which ranked Woori Card as the sixth largest credit card issuer in Korea, according to BC Research, which is a quarterly report issued by BC Card.

Our credit card operations benefit from Woori Card s ownership of a 7.6% equity stake in BC Card. BC Card is co-owned by KT Capital, which is a financial subsidiary of KT Corporation, one of Korea s largest telecommunications companies, as well as a private equity fund and other Korean financial institutions, and operates the largest merchant payment network in Korea as measured by transaction volume. This ownership stake allows us to outsource production and delivery of new credit cards, the preparation of monthly statements, management of merchants and other ancillary services to BC Card for our credit card operations. In October 2011, we sold a 20% equity stake which we previously owned in BC Card to KT Capital for a price of 137 billion.

Products and Services

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

- a Woori brand;
- a BC Card brand; and
- a Visa brand.

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

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

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

cash advance services from ATMs and bank branches; and

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

Unlike in the United States and many other countries, where most credit cards are revolving cards that allow outstanding balances to be rolled over from month to month so long as a required minimum percentage is repaid, cardholders in Korea are generally required to pay for their non-installment purchases as well as cash advances within approximately 15 to 60 days of purchase or advance, depending on their payment cycle.

The following tables set forth certain data relating to the credit card operations of Woori Card (including credit cards issued previously by us and BC Cards and Visa Cards issued through the BC Card consortium) as of the dates or for the period indicated:

	As of or for the year ended December 31,		
	2012	2013	2014
	(in billions of Won, unless indicated otherwise)		
Number of credit card holders (at year end) (thousands of holders)			
General accounts	10,977	10,847	11,388
Corporate accounts	411	447	523
Total	11,388	11,294	11,912
Active ratio[1]	49.53%	53.40%	54.20%
Credit card interest and fees			
Installment and cash advance interest	218	172	215
Annual membership fees	11	12	28
Merchant fees	643	480	683
Other fees	168	178	284
Total	1,040	842	1,210
Charge volumes			
General purchase	33,599	29,227	42,885
Installment purchase	4,784	3,284	5,107
Cash advance	4,732	3,156	4,369
Card loan	593	848	2,072
Total	43,708	36,515	54,433
Outstanding balances (at year end)			
General purchase	2,112	2,003	2,054
Installment purchase	988	925	1,131
Cash advance	564	539	557
Card loan	449	750	1,378
Total	4,113	4,217	5,120
Average outstanding balances			
General purchase	2,178	2,166	2,174
Installment purchase	1,078	1,009	1,145
Cash advance	653	546	540
Card loan	399	599	1,050
Total	4,308	4,320	4,909
Delinquency ratios[2]			
Less than 1 month	3.19	2.44	2.20
From 1 month to 3 months	0.92	0.87	0.76
From 3 months to 6 months	1.03	0.93	0.89
Over 6 months	0.02	0.00	0.01

Total	5.16%	4.24%	3.86%
Non-performing loan ratio[3]	1.48%	1.32%	1.26%
Gross charge-offs	176	160	163
Recoveries	31	23	28
Net charge-offs	145	137	135
Gross charge-off ratio[4]	4.08%	3.71%	3.31%
Net charge-off ratio[5]	3.35%	3.18%	2.74%

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

(2) Our delinquency ratios may not fully reflect all delinquent amounts relating to our outstanding balances since a certain portion of delinquent credit card balances (defined as balances one day or more past due) were restructured into loans and were not treated as being delinquent at the time of conversion or for a period of time thereafter. Including all restructured loans, outstanding balances overdue by more than one month accounted for 3.0% of our credit card balances as of December 31, 2014.

(3) Represents the ratio of balances that are more than three months overdue to total outstanding balances as of the end of the relevant year. These ratios do not include the following amounts of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary as of December 31, 2012, 2013 and 2014:

	As of December 31,		
	2012	2013	2014
	(in billions of Won)		
Restructured loans	59	62	65

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

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

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

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

In recent years, credit card issuers in Korea have agreed with selected cardholders to restructure their delinquent credit card account balances as loans that have more gradual repayment terms, in order to retain fundamentally sound customers who are experiencing temporary financial difficulties and to increase the likelihood of eventual recovery on those balances. In line with industry practice, we have restructured a portion of our delinquent credit card account balances as loans. The general qualifications to restructure delinquent credit card balances as loans are that the delinquent amount be more than one month overdue and in excess of 1 million. The terms of the restructured loans usually require the payment of approximately 10% to 20% of the outstanding balance as a down payment and that they be guaranteed by a third party and carry higher interest rates than prevailing market rates. These loans are usually required to be repaid by the borrower in installments over terms ranging from three months to 60 months. As of December 31, 2014, the total amount of our restructured loans was 74 billion. Because restructured loans are not initially recorded as being delinquent, our delinquency ratios do not fully reflect all delinquent amounts relating to our outstanding credit card balances.

Payments and Charges

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

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

unpaid transaction or installment, as applicable. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Review and Monitoring.

Payments on amounts outstanding on our credit cards must be made (at the cardholder s election at the time of purchase) either in full on each monthly payment date, in the case of lump-sum purchases, or in equal monthly installments over a fixed term from two months to 36 months, in the case of installment purchases. Cardholders may prepay installment purchases at any time without penalty. Payment for cash advances must be made on a lump sum basis. Payments for card loans must be made on an equal principal installment basis over a fixed term from three months up to a maximum of 36 months, up to a maximum loan amount of 30 million.

No interest is charged on lump-sum purchases that are paid in full by the monthly payment date. For installment purchases, we charge a fixed rate of interest on the outstanding balance of the transaction amount, based on the installment period selected at the time of purchase. For a new cardholder, we currently apply an interest rate between approximately 9.5 and 19.5% per annum as determined by the cardholder s application system score. See Item 11. Quantitative and Qualitative Disclosures about Market Risk Credit Risk Management Credit Evaluation and Approval Credit Card Approval Process and Credit Review and Monitoring Credit Card Review and Monitoring.

For cash advances, finance charges start accruing immediately following the cash withdrawal. We currently charge a periodic finance charge on the outstanding balance of cash advance of approximately 6.8% to 26.4% per annum. The periodic finance charge assessed on such balances is calculated by multiplying the daily installment balances for each day during the billing cycle by the applicable periodic finance charge rate, and aggregating the results for each day in the billing period. In addition to finance charges, cardholders using cash advance networks operated by companies that are not financial institutions (such as Hannet and NICE) are charged a minimum commission of 800 and a maximum of 1,300 per withdrawal.

We also generally charge a basic annual membership fee of 2,000 to 25,000 for regular and gold cards and 30,000 to 1,000,000 for platinum cards. The determination of the annual fee is based on various factors including the type of card, and whether affiliation options are selected by the cardholder. For certain cards, such as the Woori V Card, we will waive membership fees if customers charge above a certain amount.

Commencing in July 2006, we outsourced the management of merchants to BC Card. We charge merchant fees to merchants for processing transactions. Merchant fees vary depending on the type of merchant and the total transaction amounts generated by the merchant. As of December 31, 2014, we charged merchants an average of 1.73% of their respective total transaction amounts. In addition to merchant fees, we receive nominal interchange fees for international card transactions.

Capital Markets Activities

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

Securities Investment and Trading

We invest in and trade securities for our own account, in order to maintain adequate sources of liquidity and to generate interest and dividend income and capital gains. As of December 31, 2014, our investment portfolio, which consists of held-to-maturity financial assets and available-for-sale financial assets, and our trading portfolio, which consists of financial assets held for trading and financial assets designated at fair value through profit or loss (excluding deposits and derivative assets), had a combined total book value of 34,284 billion and represented 12.7% of our total assets.

Our trading and investment portfolios consist primarily of Korean treasury securities and debt securities issued by Korean government agencies, including the KDIC, local governments or government-invested enterprises, and debt securities issued by financial institutions. As of December 31, 2014, we held debt securities with a total book value of 28,447 billion, of which:

held-to-maturity debt securities accounted for 13,044 billion, or 45.9%;

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available-for-sale debt securities accounted for 13,187 billion, or 46.3%; and

debt securities held for trading accounted for 2,216 billion, or 7.8%.

Of these amounts, as of December 31, 2014, debt securities issued by the Korean government amounted to 4,128 billion, or 31.6% of our held-to-maturity debt securities, 3,117 billion, or 23.6% of our available-for-sale debt securities, and 634 billion, or 28.6% of our trading debt securities.

From time to time, we also purchase and sell equity securities for our securities portfolios. Our equity securities consist primarily of equities listed on the KRX KOSPI Market or the KRX KOSDAQ Market. As of December 31, 2014:

equity securities in our available-for-sale portfolio had a book value of 1,421 billion, or 7.6% of our available-for-sale securities portfolio;

equity securities held for trading accounted for 100 billion, or 4.1% of our held-for-trading securities portfolio; and

equity securities designated at fair value through profit or loss accounted for 11 billion, or 64.9% of our financial assets designated at fair value through profit or loss portfolio.

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

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

	As of December 31, 2012			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	2,659	25	(3)	2,681
Financial institutions	6,032	19	(1)	6,050
Corporate	4,289	48	(16)	4,321
Asset-backed securities	401	2	(20)	383
Foreign currency bonds	213			213
Subtotal	13,594	94	(40)	13,648
Equity securities	1,692	525	(32)	2,185
Beneficiary certificates(1)	2,842	15	(3)	2,854
Others	203		(1)	202
Total available-for-sale financial assets	18,331	634	(76)	18,889
Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	7,665	176	(6)	7,835
Financial institutions	3,621	25	(0)	3,646

Corporate	7,352	136	(3)	7,485
Foreign currency bonds	36			36
Securities loaned	11			11
Total held-to-maturity financial assets	18,685	337	(9)	19,013

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	As of December 31, 2013[2]			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	2,690	6	(15)	2,681
Financial institutions	6,509	4	(1)	6,512
Corporate	2,427	12	(5)	2,434
Asset-backed securities	291	7	(25)	273
Foreign currency bonds	230		(1)	229
Subtotal	12,147	29	(47)	12,129
Equity securities	1,380	272	(36)	1,616
Beneficiary certificates[1]	3,007	60	(2)	3,065
Others	275	1	(1)	275
Total available-for-sale financial assets	16,809	362	(86)	17,085
Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	4,729	58	(17)	4,770
Financial institutions	2,156	8	(1)	2,163
Corporate	5,131	65	(6)	5,190
Foreign currency bonds	23			23
Total held-to-maturity financial assets	12,039	131	(24)	12,146

	As of December 31, 2014			
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
	(in billions of Won)			
Available-for-sale financial assets:				
Debt securities				
Korean treasury and government agencies	3,139	33		3,172
Financial institutions	6,697	34		6,731
Corporate	2,763	64		2,827
Asset-backed securities	171		(13)	158
Foreign currency bonds	366		(67)	299
Subtotal	13,136	131	(80)	13,187
Equity securities	1,116	432	(127)	1,421
Beneficiary certificates[1]	3,432	21		3,453
Others	731	19		750
Total available-for-sale financial assets	18,415	603	(207)	18,811
Held-to-maturity financial assets:				
Debt securities				
Korean treasury and government agencies	4,128	83		4,211
Financial institutions	4,390	37		4,427
Corporate	4,470	106	(3)	4,573

Foreign currency bonds	56			56
Total held-to-maturity financial assets	13,044	226	(3)	13,267

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

(2) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

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

Derivatives Trading

We offer derivatives products and engage in derivatives trading, mostly for our corporate customers. Our trading volume was 217,756 billion in 2012, 178,756 billion in 2013 and 175,635 billion in 2014. Our aggregate net trading revenue (loss) from derivatives for the years ended December 31, 2012, 2013 and 2014 was (369) billion, 174 billion and 162 billion, respectively.

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

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

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

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

	As of December 31,					
	2012		2013[(1)]		2014	
	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities	Estimated Fair Value of Assets	Estimated Fair Value of Liabilities
	(in billions of Won)					
Currency derivatives	1,565	1,401	1,119	1,039	965	934
Interest rate derivatives	1,820	1,894	1,008	1,034	1,110	1,152
Equity derivatives	309	81	55	20	2	20
Credit derivatives[(2)]	28	17				
Commodity derivatives	18	15	3	3	34	34
Total	3,740	3,408	2,185	2,096	2,111	2,140

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

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

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

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Asset Securitization Services

We are active in the Korean asset-backed securities market. We participate in asset securitization transactions in Korea by acting as arranger, trustee or liquidity provider. In 2014, we were involved in asset securitization transactions with an initial aggregate issue amount of 2,120 billion and generated total fee income of approximately 23 billion in connection with such transactions. The securities issued in asset securitization transactions are sold mainly to institutional investors buying through Korean securities firms.

Investment Banking

We engage in investment banking activities in Korea. In addition, we provide project finance and financial advisory services, in the area of social overhead capital projects such as highway, port, power and water and sewage projects, as well as structured finance, leveraged buy-out financing, equity and venture financing and mergers and acquisitions financing services. In 2014, we generated investment banking revenue of approximately 108 billion from gains on investment in foreign bonds and equity securities and fees from advisory and other services.

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

International Banking

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

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

	As of December 31,		
	2012	**2013**[1]	**2014**
	(in millions of US$)		
Total foreign currency assets	US$ 32,083	US$ 30,300	US$ 30,138
Foreign currency borrowings			
Call money	US$ 306	US$ 918	US$ 1,008
Long-term borrowings	5,174	4,672	3,827
Short-term borrowings	8,981	7,382	9,148
Total foreign currency borrowings	US$ 14,461	US$ 12,972	US$ 13,983

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

The table below sets forth our overseas subsidiaries and branches in operation as of December 31, 2014:

Business Unit[1]	Location
Subsidiaries:	
Woori America Bank	United States
PT. Bank Woori Saudara Indonesia 1906	Indonesia
Woori Global Markets Asia Limited	China (Hong Kong)
Woori Bank China Limited	China
ZAO Woori Bank	Russia
Woori Brazil Bank	Brazil
Woori Finance Cambodia	Cambodia
Branches, Agencies and Representative Offices:	
London Branch	United Kingdom
Tokyo Branch	Japan
Singapore Branch	Singapore
Hong Kong Branch	China (Hong Kong)
Bahrain Branch	Bahrain
Dhaka Branch	Bangladesh
Hanoi Branch	Vietnam
Ho Chi Minh City Branch	Vietnam
Gaeseong Industrial Complex Branch	North Korea
New York Agency	United States
Los Angeles Branch	United States
Chennai Branch	India
Sydney Branch	Australia
Kuala Lumpur Representative Office	Malaysia
Yangon Representative Office	Myanmar

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

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

Woori America Bank currently operates 17 branches in New York, New Jersey, Maryland, Virginia, Pennsylvania and California and provides retail and corporate banking services targeted towards the Korean-American community. Woori America Bank had total assets of US$1,227 million as of December 31, 2014 and net profit of US$5 million in 2014.

In November 2007, Woori Bank established a local subsidiary in China, Woori Bank China Limited, which currently has branches in Beijing, Shenzhen, Suzhou, Tianjin, Dalian and Chengdu. We also established a local subsidiary in Russia, ZAO Woori Bank, in January 2008 and it currently has a branch in St. Petersburg and a representative office in Vladivostok. In addition, we have in recent years entered into various memoranda of understanding and strategic alliances with local banks in overseas markets, including China and Spain, in order to pursue business cooperation activities in such markets such as joint marketing efforts and information exchange.

In January 2014, we completed the purchase of an additional 27% equity interest (in addition to the 6% equity interest we previously acquired through our subsidiary PT. Bank Woori Indonesia) in PT. Bank Himpunan Saudara 1906, an Indonesian commercial bank with a network of over 100 branches and offices throughout Indonesia. In December 2014, PT. Bank Woori Indonesia merged with and into PT. Bank Himpunan Saudara 1906. The merged entity, in which we hold a 74.0% equity interest, was renamed PT. Bank Woori Saudara Indonesia 1906 and became our consolidated subsidiary. As of December 31, 2014, PT. Bank Woori Saudara Indonesia 1906 had total assets of approximately US$1,590 million and shareholders equity of US$316 million.

Asset Management

Trust Management Services

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

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

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

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

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

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

We receive fees for our trust management services that are generally based upon a percentage, ranging between 0.01% and 2.0%, of the net asset value of the assets under management. We also receive penalty payments when customers terminate their trust deposit prior to the original contract maturity. Excluding discontinued operations, fees that we received for trust management services (including those fees related to property trust management services, described below, but excluding those fees relating to guaranteed trusts, which are eliminated in consolidation), net of expenses, amounted to 31 billion in 2012, 36 billion in 2013 and 40 billion in 2014.

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

The following table shows the balances of our money trusts by type as of the dates indicated. We consolidate within our financial statements trust accounts for which we guarantee both the repayment of the principal amount and a fixed rate of interest and, commencing in 2013, trust accounts for which we guarantee only the repayment of the principal amount, while we do not consolidate performance trusts on which we do not guarantee principal or interest:

	As of December 31,		
	2012	2013[1]	2014
	(in billions of Won)		
Principal and interest guaranteed trusts	1	1	1
Principal guaranteed trusts	1,266	1,217	1,263
Performance trusts	30,166	17,381	19,837
Total	31,433	18,599	21,101

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

The trust assets we manage consist principally of investment securities, loans made from the trusts and amounts due from banks. The investment securities consist of government-related debt securities, corporate debt securities, including bonds and commercial paper, equity securities and other securities. As of December 31, 2014, our money trusts had invested in securities with an aggregate book value of 2,741 billion, which accounted for approximately 12.73% of our money trust assets. Debt securities accounted for 1,934 billion of this amount.

Our money trusts also invest, to a lesser extent, in equity securities, including beneficiary certificates issued by investment trust management companies. As of December 31, 2014, equity securities held by our money trusts amounted to 807 billion, which accounted for approximately 3.75% of our money trust assets. Of this amount, 429 billion was from money trusts over which we had investment discretion and the remainder was from specified money trusts.

Loans made by our money trusts are similar in type to the loans made by our banking operations. As of December 31, 2014, our money trusts had made loans in the aggregate principal amount of 3,610 billion (excluding loans to our banking operations of 2,943 billion), which accounted for approximately 16.76% of our money trust assets.

The amounts due from banks consist of local currency and foreign currencies. As of December 31, 2014, such amounts due from banks totaled 12,003 billion, which accounted for approximately 55.75% of our money trust assets.

If the income from a money trust for which we provide a guarantee is less than the amount of the payments we have guaranteed, we will need to pay the amount of the shortfall with funds from special reserves maintained in our trust accounts, followed by basic fees from that money trust and funds from our banking operations. We net any payments we make as a result of these shortfalls against any gains we receive from other money trusts. No material payments of any such shortfall amounts were made in 2014.

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

In 2014, our property trust fees generally ranged from 0.003% to 0.15% of total assets under management, depending on the type of trust account product. As of December 31, 2014, the balance of our property trusts totaled 9,634 billion.

Property trusts are not consolidated within our financial statements.

Trustee and Custodian Services Relating to Securities Investment Trusts

We act as a trustee for approximately 1,365 securities investment trusts, mutual funds and other investment funds. We receive a fee for acting as a trustee and generally perform the following functions:

- receiving payments made in respect of such securities;
- executing trades in respect of such securities on behalf of the investment fund, based on instructions from the relevant investment fund management company; and
- in certain cases, authenticating beneficiary certificates issued by investment trust management companies and handling settlements in respect of such beneficiary certificates.

For the year ended December 31, 2014, our fee income from such services was 9 billion.

Other Businesses

Management of National Housing Fund

In April 2008, we were selected to be the lead manager of the National Housing Fund. The National Housing Fund provides financial support to low-income households in Korea by providing mortgage financing and construction loans for projects to build small- and medium-sized housing. As of December 31, 2014, outstanding housing loans from the National Housing Fund amounted to approximately 83.6 trillion, of which

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we originated approximately 45.6 trillion. The activities of the National Housing Fund are funded primarily by the issuance of national housing bonds, which must be purchased by persons and legal entities wishing to make real estate-related registrations and filings, and by subscription savings deposits held at the National Housing Fund.

In return for managing the operations of the National Housing Fund we receive a monthly fee. This fee consists of a fund raising fee, a loan origination fee and a management fee. The fund raising fee is based on the number of National Housing Fund subscription savings deposit accounts opened and the level of activity for existing accounts and the number of National Housing Fund bonds issued or redeemed. The loan origination fee is based on the number of new National Housing Fund loans and the number of National Housing Fund mortgage loans to contractors constructing housing units that are assumed by the individual buyers of housing units and the level of activity for existing loans during each month. The management fee is based on the monthly average of the number of outstanding accounts and the monthly average of the number of overdue loans owed to the National Housing Fund. We received total fees of approximately 73 billion for managing the National Housing Fund in 2014.

Bancassurance

The term bancassurance refers to the marketing and sale by commercial banks of insurance products manufactured within a group of affiliated companies or by third-party insurance companies. We market a wide range of bancassurance products. In 2014, we generated fee income of approximately 90 billion through the marketing of bancassurance products. We believe that we will be able to continue to develop an important new source of fee-based revenues by expanding our offering of these products. We have entered into bancassurance marketing arrangements with 26 insurance companies, including Samsung Life Insurance, Samsung Fire and Marine Insurance, Hanwha Life Insurance, Hyundai Fire and Marine Insurance and American International Assurance, and plan to enter into additional insurance product marketing arrangements with other leading insurance companies whose names and reputation are likely to be familiar to our customer base.

Private Equity

In October 2005, we established Woori Private Equity Co., Ltd. with the aim of strengthening our principal investment operations. Woori Private Equity seeks to make long-term and strategic investments in buyout target companies, as well as actively involving itself in their management. This involves identifying potential investees suffering from inefficient management and effecting financial restructuring and strategic reorientation in those investees so as to enhance their enterprise value. We expect Woori Private Equity s operations to continue to provide us with greater investment opportunities and a new source of business for other related segments, especially corporate banking. In July 2006, Woori Private Equity established Woori Private Equity Fund, the size of which is approximately 344 billion, as a limited partnership in which Woori Private Equity serves as a general partner. In December 2009, Woori Private Equity established Woori Blackstone Korea Opportunity Private Equity Fund I, the size of which is approximately 606 billion, as a limited partnership in which Woori Private Equity serves as a general partner. In December 2012, Woori Private Equity established Woori Columbus Private Equity Fund I, the size of which is approximately 61 billion, as a limited partnership in which it serves as the general partner.

Competition

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

Competition in the Korean financial market has been and is likely to remain intense. In particular, in the area of our core banking operations, most Korean banks have been focusing on retail customers and small- and

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medium-sized enterprises in recent years, although they have begun to increase their exposure to large corporate borrowers, and have been focusing on developing fee income businesses, including bancassurance, as increasingly important sources of revenue. In the area of credit cards, Korean banks and credit card companies have in the past engaged in aggressive marketing activities and made significant investments, contributing to some extent to the lower profitability and asset quality problems previously experienced with respect to credit card receivables.

In addition, we believe regulatory reforms and the general modernization of business practices in Korea will lead to increased competition among financial institutions in Korea. We also believe that foreign financial institutions, many of which have greater experience and resources than we do, will seek to compete with us in providing financial products and services either by themselves or in partnership with existing Korean financial institutions. Furthermore, a number of significant mergers and acquisitions in the industry have taken place in Korea over the past decade, including the acquisition of Koram Bank by an affiliate of Citibank in 2004, the acquisition of Korea First Bank by Standard Chartered Bank in April 2005, Chohung Bank s merger with Shinhan Bank in April 2006 and Hana Financial Group s acquisition of a controlling interest in Korea Exchange Bank in February 2012 and the proposed merger of Hana Bank into Korea Exchange Bank in the second half of 2015. Moreover, in 2014, pursuant to the implementation of the Korean government s privatization plan with respect to Woori Finance Holdings and its former subsidiaries, Woori Financial, Woori Asset Management and Woori F&I were acquired by KB Financial Group, Kiwoom Securities and Daishin Securities, respectively, and Woori Investment & Securities, Woori Aviva Life Insurance and Woori FG Savings Bank were acquired by NongHyup Financial Group. In addition, in October 2014, the KDIC s ownership interest in the holding companies of Kwangju Bank and Kyongnam Bank were acquired by JB Financial Group and BS Financial Group, respectively. See Item 4A. History and Development of the Company Privatization Plan. We expect that consolidation in the financial industry will continue. 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. See Item 3D. Risk Factors Risks relating to competition.

Assets and Liabilities

The tables below and accompanying discussions provide selected financial highlights regarding our assets and liabilities on a consolidated basis.

The Korean government, which currently owns 51.04% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. See Item 4A. History and Development of the Company Privatization Plan. In light of their dispositions under the privatization plan, which were completed during 2014, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I were classified as a disposal group held for distribution or sale, and their operations were accounted for as discontinued operations. Unless expressly stated otherwise, our financial information as of December 31, 2013 and 2014 and for the years ended December 31, 2010, 2011, 2012, 2013, and 2014 set forth below does not include financial data with respect to such discontinued operations, while our financial information as of December 31, 2010, 2011 and 2012 set forth below includes financial data with respect to such discontinued operations.

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

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Loan Portfolio

As of December 31, 2014, the balance of our total loan portfolio was 207,077 billion. As of December 31, 2014, 87.8% of our total loans were Won-denominated loans and 12.2% of our total loans were denominated in other currencies. Of the 25,289 billion of foreign currency-denominated loans as of that date, approximately 38.7% represented foreign loans to offshore entities and individuals. We make foreign loans primarily through our overseas branches to affiliates of large Korean manufacturing companies for trade financing and working capital.

Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Loan Types

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

	As of December 31,				
	2010	2011	2012(1)	2013(1)(2)	2014(1)
	(in billions of Won)				
Domestic:					
Corporate(3):					
Commercial and industrial	98,195	101,738	105,048	91,058	89,410
Lease financing	653	700	698		
Trade financing	11,332	13,171	11,982	10,296	11,937
Other commercial	12,558	10,927	13,263	9,690	11,440
Total corporate	122,738	126,536	130,991	111,044	112,787
Consumer:					
General purpose household	32,992	32,709	31,725	25,094	25,070
Mortgage	6,375	12,138	16,409	19,952	28,988
Home equity	26,645	27,940	30,424	25,732	25,340
Total consumer	66,012	72,787	78,558	70,778	79,398
Credit cards	4,357	4,592	4,505	4,209	5,114
Total domestic	193,107	203,915	214,054	186,031	197,299
Foreign:					
Corporate(4):					
Commercial and industrial	7,185	8,013	6,058	6,961	7,989
Trade financing	129	165	141	319	725
Other commercial	69	272	522	192	245
Total corporate	7,383	8,450	6,721	7,472	8,959
Consumer	745	127	253	263	819
Total foreign	8,128	8,577	6,974	7,735	9,778
Total loans(5)	201,235	212,492	221,028	193,766	207,077
Less: present value discount	(16)	(31)	(25)	(25)	(17)
Less: deferred origination costs (fees)	74	178	258	295	368
Less: allowance for credit losses	(4,718)	(3,759)	(3,565)	(3,337)	(2,609)
Total loans, net	196,575	208,880	217,696	190,699	204,819

(1) The amounts as of December 31, 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) were restated to retroactively apply such change.

(2) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

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

Loan Concentrations

We limit our total exposure to any single borrower as required by Korean regulations and pursuant to our internal policies and determine this limit based on the borrower s credit rating provided by our CREPIA system. We may adjust our limit if such limit would otherwise exceed the limit imposed by Korean regulations. See Supervision and Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer or Major Shareholder.

20 Largest Exposures by Borrower

As of December 31, 2014, our exposures to our 20 largest borrowers or issuers totaled 37,257 billion and accounted for 10.8% of our total exposures. The following table sets forth our total exposures to those borrowers or issuers as of that date:

	Loans							
Company (Credit Rating)[1]	**Won currency**	**Foreign currency**	**Equity securities**	**Debt securities**	**Guarantees and acceptances**	**Total exposures**	**Collateral[2]**	**Amounts Classified as substandard or below[3]**
				(in billions of Won)				
The Bank of Korea (AAA)	2,950			5,136		8,086		
Korean Government[4]				7,879		7,879		
Korea Land Housing Corporation (AAA)	2,188			2,039		4,227		
Korea Development Bank (AAA)				2,290		2,290		
Hyundai Heavy Industries (AA)		371	11		1,861	2,243		
Korea Finance Corporation (AAA)				1,516		1,516		
Samsung Heavy Industries (AA)		14	5	10	1,228	1,257		
Industrial Bank of Korea (AAA)	730			338		1,068		
Korea Deposit Insurance Corporation (AAA)				908		908		
Daewoo International (A+)	1	562			303	866		
Kookmin Bank (AAA)	569			261		830	130	
Korea Railroad Corporation (AAA)				828		828		
Daewoo Shipbuilding & Marine Engineering (AAA)	70	258			448	776		
Hyosung (A+)	216	427			125	768	71	
Samsung Electronics (AAA)	39	683	6			728		
Small and Medium Business Corporation (AAA)				612		612		
Sungdong Shipbuilding & Marine Engineering (D)	137				473	610	316	375
Kia Motors (AA)	286	284			25	595		9
SPP Shipbuilding (D)	60	45			486	591	274	406
Gajaewool New Town 4th District Housing Redevelopment Business Cooperative Association (BBB)	579					579	579	
Total	7,825	2,644	22	21,817	4,949	37,257	1,370	790

(1) Credit ratings from one of the following domestic credit rating agencies in Korea as of December 31, 2014: Korea Information Service Inc., National Information & Credit Evaluation, Inc., or Korea Ratings.
(2) The value of collateral is appraised based on future cash flow and observable market price.
(3) Classification is based on the Financial Services Commission s asset classification criteria.
(4) Credit rating is unavailable.

As of December 31, 2014, five of these top 20 borrowers or issuers were companies belonging to the 30 largest *chaebols* in Korea. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio We have exposure to the largest Korean commercial conglomerates, known as *chaebols*, and, as a result, financial difficulties of *chaebols* may have an adverse impact on us.

Exposure to Chaebols

As of December 31, 2014, 7.2% of our total exposure was to the 30 largest *chaebols* in Korea. The following table shows, as of December 31, 2014, our total exposures to the ten *chaebol* groups to which we have the largest exposure:

Chaebol	Loans: Won currency	Loans: Foreign currency	Equity securities	Debt securities	Guarantees and acceptances	Total exposures	Collateral(1)	Amounts Classified as substandard or below(2)
	(in billions of Won)							
Hyundai Heavy Industries	176	748	11		2,531	3,465	9	
Samsung	181	1,123	15	123	1,931	3,373	30	
Hyundai Motors	1,061	1,060	49	238	528	2,935	40	9
Doosan	737	126			436	1,299	60	
SK	248	624	2	26	371	1,271	78	
Hyosung	593	498			143	1,234	201	43
Hanhwa	826	106	2	6	195	1,135	239	
Kumho Asiana Group	454	377	44	5	89	971	161	2
LG	481	357	4		77	920	6	
Hanjin	482	125	2	38	261	908	558	
Total	5,239	5,144	129	436	6,562	17,511	1,382	54

(1) The value of collateral is appraised based on future cash flow and observable market price.
(2) Classification is based on the Financial Services Commission s asset classification criteria.

Loan Concentration by Industry

The following table shows, as of December 31, 2014, the aggregate balance of our domestic and foreign corporate loans by industry concentration and as a percentage of our total corporate lending:

	Aggregate corporate loan balance	Percentage of total corporate loan balance
	(in billions of Won)	
Industry		

Manufacturing	38,537	31.7%
Retail and wholesale	16,212	13.3
Financial and insurance	15,582	12.8
Hotel, leisure or transportation	6,301	5.2
Construction	5,728	4.7
Government and government agencies	403	0.3
Other	38,983	32.0
Total	121,746	100.0%

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Maturity Analysis

The following table sets out, as of December 31, 2014, the scheduled maturities (time remaining until maturity) of our loan portfolio. The amounts disclosed in the following table are before deduction of allowance for credit losses and present value discount and do not reflect deferred origination costs:

	1 year or less	Over 1 year but not more than 5 years	Over 5 years	Total
		(in billions of Won)		
Domestic				
Corporate[1]				
Commercial and industrial	62,538	20,859	6,013	89,410
Lease financing				
Trade financing	11,852	85		11,937
Other commercial	9,543	1,100	797	11,440
Total corporate	83,933	22,044	6,810	112,787
Consumer				
General purpose household	14,374	4,253	6,443	25,070
Mortgage	5,201	6,223	17,564	28,988
Home equity	4,681	3,472	17,187	25,340
Total consumer	24,256	13,948	41,194	79,398
Credit cards	4,428	686		5,114
Total domestic	112,617	36,678	48,004	197,299
Foreign				
Corporate[2]				
Commercial and industrial	5,830	1,388	771	7,989
Lease financing				
Trade financing	725			725
Other commercial	178	67		245
Total corporate	6,733	1,455	771	8,959
Consumer				
Other consumer	47	146	626	819
Total foreign	6,780	1,601	1,397	9,778
Total loans	119,397	38,279	49,401	207,077

(1) Including loans made to banks and the Korean government and government-owned agencies.
(2) Including loans made to banks.

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

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Interest Rates

The following table shows, as of December 31, 2014, the total amount of our loans due after one year that have fixed interest rates and variable or adjustable interest rates:

	Domestic	Foreign (in billions of Won)	Total
Fixed rate(1)	36,357	125	36,482
Variable or adjustable rates(2)	48,325	2,873	51,198
Total loans	84,682	2,998	87,680

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

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

Asset Quality of Loans

Except where we specify otherwise, all loan amounts stated below do not include amounts due from banks and other receivables and are prior to deducting allowance for credit losses and present value discount or reflecting deferred origination costs, and all corporate loan amounts stated below include loans made to the Korean government and government-owned agencies and banks.

Loan Classifications

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

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

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

	are in arrears for one month or more but less than three months.
Substandard	Either:
	credits extended to customers that, based on our consideration of their business, financial position and future cash flows, are judged to have incurred considerable default risks as their ability to repay has deteriorated; or

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

Loan Loss Provisioning Policy

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

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

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

We also consider the following loans to be impaired loans:

- loans that are past due by 90 days or more;
- loans that are subject to legal proceedings related to collection;
- loans to a borrower that has received a warning from the Korea Federation of Banks indicating that such borrower has exhibited difficulties in making timely payments of principal and interest;
- loans to corporate borrowers that are rated D according to our internal credit ratings;
- restructured loans; and
- individually significant loans classified as precautionary based on the asset classification criteria of the Financial Services Commission, where the borrower is subject to complete capital impairment or has received an adverse audit opinion or disclaimer of opinion on its financial statements.

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

Loan classifications	Corporate(1)	Consumer	Credit card receivables(2)	Credit card loans(3)
Normal	0.85% or above	1% or above	1.1% or above	2.5% or above
Precautionary	7% or above	10% or above	40% or above	50% or above
Substandard	20% or above	20% or above	60% or above	65% or above
Doubtful	50% or above	55% or above	75% or above	75% or above
Estimated loss	100%	100%	100%	100%

(1) Subject to certain exceptions pursuant to the Banking Industry Supervision Regulations of Korea.
(2) Applicable for credit card receivables for general purchases of products or services.
(3) Applicable for cash advances, card loans and revolving loan receivables.

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

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

Problem Loans and Past Due Accruing Loans

We do not identify or segregate non-accrual loans as a conceptual matter in our financial statements prepared in accordance with IFRS as issued by the IASB, as we continue to accrue interest on all impaired loans based on the rate of interest used to discount future cash flows for the purpose of measuring the impairment loss

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in accordance with the requirements of paragraph AG93 of *IAS 39, Financial Instruments: Recognition and Measurement*. However, we continue to monitor and manage our problem loans by generally placing loans on problem loan status when payments of interest and/or principal become past due by 90 days. In addition, the following types of loans are classified as problem loans by us even if such loans are not past due:

Loans to creditors with dishonored notes or checks;

Loans for which interest payments are reduced or postponed (e.g., through work-out procedures or debt restructurings); and

Loans to creditors included in the watch list maintained by the Korea Federation of Banks.

We reclassify loans as non-problem loans when interest and principal payments are up-to-date and future payments of principal and interest are reasonably assured. In applying payments on problem loans, we first apply payments to the delinquent interest outstanding, then to non-delinquent interest, and then to the outstanding loan balance until the loan is paid in full.

Foregone interest is the portion of the contractual interest due on problem loans that we have not accrued in our books. If we had not foregone interest on our problem loans, excluding discontinued operations, we would have recorded gross interest income of 151 billion, 213 billion and 218 billion, for 2012, 2013 and 2014, respectively, on loans accounted for as problem loans throughout the year, or since origination for loans held for part of the year. The actual amount of interest income on those loans included in our net income for 2012, 2013 and 2014, excluding discontinued operations, was 38 billion, 118 billion and 102 billion, respectively.

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

The following table shows, as of the dates indicated, the amount of loans that were problem loans and accruing loans which were past due 90 days or more:

	As of December 31,														
	2010			2011			2012			2013[1]			2014		
	Domestic	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**	**Domestic**	**Foreign**	**Total**
Loans classified as problem loans[2]															
Corporate[3]	2,831	19	2,850	2,580	132	2,712	3,002	22	3,024	3,645	23	3,668	2,458	82	2,540
Consumer [4]	1,081		1,081	417		417	587	1	588	539		539	503	6	509
Sub-total	3,912	19	3,931	2,997	132	3,129	3,589	23	3,612	4,184	23	4,207	2,961	88	3,049
Accruing loans which are contractually past due 90 days or more as to principal or interest[2]															
Corporate[3]	184	3	187	26	10	36	11		11				2		2
Consumer	24		24	5		5	4		4						
Sub-total	208	3	211	31	10	41	15		15				2		2
Total	4,120	22	4,142	3,028	142	3,170	3,604	23	3,627	4,184	23	4,207	2,963	88	3,051

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
(2) 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.

(3) Including loans made to banks and the Korean government and government-owned agencies.

(4) Includes credit card balances of 1 billion, 23 billion, 19 billion, 18 billion and 36 billion as of December 31, 2010, 2011, 2012, 2013 and 2014, respectively.

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The following table shows the relevant amounts as of December 31, 2012 to be directly comparable to such amounts as of December 31, 2013 and 2014:

	As of December 31,			
	2012			
	Continuing operations	Businesses to be disposed of	2013[(1)]	2014
	(in billions of Won)			
Problem loans	2,547	1,065	4,207	3,049
Potential problem loans	3,964		2,240	2,029
Non-performing loans	3,079	687	4,996	3,818

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

Loan Aging Schedule

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

	As of December 31, 2014											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	(in billions of Won, except percentages)											
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
Domestic												
Corporate[(1)]												
Commercial and industrial	88,297	42.7%	188	0.1%	195	0.1%	250	0.1%	480	0.2%	89,410	43.2%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	11,889	5.7%	9	0.0%	6	0.0%	14	0.0%	19	0.0%	11,937	5.7%
Other commercial	11,132	5.4%	9	0.0%	98	0.0%	107	0.1%	94	0.0%	11,440	5.5%
Total corporate	111,318	53.8%	206	0.1%	299	0.1%	371	0.2%	593	0.2%	112,787	54.4%
Consumer												
General purpose household	24,624	11.9%	227	0.1%	44	0.0%	40	0.0%	135	0.1%	25,071	12.1%
Mortgages	28,706	13.9%	202	0.1%	31	0.0%	20	0.0%	29	0.0%	28,988	14.0%
Home equity	24,890	12.0%	230	0.1%	44	0.0%	40	0.0%	136	0.1%	25,339	12.2%
Total consumer	78,220	37.8%	659	0.3%	119	0.1%	100	0.0%	300	0.2%	79,398	38.3%
Credit cards	4,916	2.4%	113	0.1%	39	0.0%	46	0.0%		0.0%	5,114	2.5%
Total domestic	194,454	94.0%	978	0.5%	457	0.2%	517	0.2%	893	0.4%	197,299	95.3%
Foreign												
Corporate[(2)]												
Commercial and industrial	7,939	3.9%	23	0.0%	4	0.0%	4	0.0%	19	0.0%	7,989	3.9%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	721	0.3%		0.0%	1	0.0%	1	0.0%	2	0.0%	725	0.3%
Other commercial	245	0.1%		0.0%		0.0%		0.0%		0.0%	245	0.1%
Total corporate	8,905	4.3%	23	0.0%	5	0.0%	5	0.0%	21	0.0%	8,959	4.3%
Consumer	801	0.4%	3	0.0%	3	0.0%	3	0.0%	9	0.0%	819	0.4%
Total foreign	9,706	4.7%	26	0.0%	8	0.0%	8	0.0%	30	0.0%	9,778	4.7%

Total loans[3]	204,160	98.7%	1,004	0.5%	465	0.2%	525	0.2%	923	0.4%	207,077	100.0%

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

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	As of December 31, 2013[(1)]											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	(in billions of Won, except percentages)											
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
Domestic												
Corporate[(2)]												
Commercial and industrial	89,562	46.2%	299	0.2%	293	0.2%	231	0.2%	673	0.3%	91,058	47.0%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	10,239	5.3%	12	0.0%	13	0.0%	11	0.0%	21	0.0%	10,296	5.3%
Other commercial	9,481	4.9%	27	0.0%	76	0.0%	69	0.0%	37	0.0%	9,690	4.9%
Total corporate	109,282	56.4%	338	0.2%	382	0.2%	311	0.2%	731	0.3%	111,044	57.3%
Consumer												
General purpose household	24,570	12.7%	244	0.1%	54	0.0%	81	0.0%	145	0.1%	25,094	12.9%
Mortgages	19,759	10.2%	123	0.1%	20	0.0%	28	0.0%	22	0.0%	19,952	10.3%
Home equity	25,193	13.0%	251	0.2%	56	0.0%	83	0.0%	149	0.1%	25,732	13.2%
Total consumer	69,522	35.9%	618	0.4%	130	0.1%	192	0.1%	316	0.2%	70,778	36.6%
Credit cards	4,030	2.1%	103	0.1%	36	0.1%	40	0.0%		0.0%	4,209	2.2%
Total domestic	182,834	94.4%	1.059	0.5%	548	0.3%	543	0.3%	1,047	0.5%	186,031	96.0%
Foreign												
Corporate[(3)]												
Commercial and industrial	6,918	3.6%	6	0.0%	16	0.0%	15	0.0%	6	0.0%	6,961	3.6%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	319	0.2%		0.0%		0.0%		0.0%		0.0%	319	0.2%
Other commercial	192	0.1%		0.0%		0.0%		0.0%		0.0%	192	0.1%
Total corporate	7,429	3.9%	6	0.0%	16	0.0%	15	0.0%	6	0.0%	7,472	3.9%
Consumer	259	0.1%	1	0.0%		0.0%	1	0.0%	2	0.0%	263	0.1%
Total foreign	7,688	4.0%	7	0.0%	16	0.0%	16	0.0%	8	0.0%	7,735	4.0%
Total loans[(4)]	190,522	98.3%	1,066	0.6%	564	0.3%	559	0.3%	1,055	0.5%	193,766	100.0%

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

(2) Including loans made to banks and the Korean government and government-owned agencies.

(3) Including loans made to banks.

(4) 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.

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	As of December 31, 2012											
	Normal		Past due by 1 month or less		Past due by 1-3 months		Past due by 3-6 months		Past due by more than 6 months		Total	
	(in billions of Won, except percentages)											
	Amount	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount past due	%	Amount	%
Domestic												
Corporate[1]												
Commercial and industrial	102,912	46.6%	434	0.2%	571	0.3%	458	0.2%	673	0.3%	105,048	47.6%
Lease financing	675	0.3%	14	0.0%	3	0.0%	3	0.0%	3	0.0%	698	0.3%
Trade financing	11,862	5.4%	19	0.0%	36	0.0%	27	0.0%	38	0.0%	11,982	5.4%
Other commercial	11,761	5.3%	18	0.0%	98	0.0%	87	0.0%	1,300	0.6%	13,264	6.0%
Total corporate	127,210	57.6%	485	0.2%	708	0.3%	575	0.3%	2,014	0.9%	130,992	59.3%
Consumer												
General purpose household	31,048	14.0%	399	0.2%	83	0.0%	74	0.0%	120	0.1%	31,724	14.3%
Mortgages	16,219	7.3%	137	0.1%	19	0.0%	17	0.0%	17	0.0%	16,409	7.4%
Home equity	29,839	13.6%	359	0.2%	66	0.0%	57	0.0%	103	0.0%	30,424	13.7%
Total consumer	77,106	34.9%	895	0.4%	168	0.1%	148	0.1%	240	0.1%	78,557	35.4%
Credit cards	4,282	1.9%	135	0.1%	41	0.0%	45	0.0%	2	0.0%	4,505	2.0%
Total domestic	208,598	94.4%	1,515	0.7%	917	0.4%	768	0.3%	2,256	1.0%	214,054	96.8%
Foreign												
Corporate[2]												
Commercial and industrial	6,030	2.7%	2	0.0%	5	0.0%	4	0.0%	16	0.0%	6,057	2.7%
Lease financing		0.0%		0.0%		0.0%		0.0%		0.0%		0.0%
Trade financing	141	0.1%		0.0%		0.0%		0.0%		0.0%	141	0.1%
Other commercial	505	0.2%		0.0%		0.0%		0.0%	18	0.0%	523	0.2%
Total corporate	6,676	3.0%	2	0.0%	5	0.0%	4	0.0%	34	0.0%	6,721	3.0%
Consumer	251	0.1%		0.0%		0.0%		0.0%	2	0.0%	253	0.2%
Total foreign	6,927	3.1%	2	0.0%	5	0.0%	4	0.0%	36	0.0%	6,974	3.2%
Total loans[3]	215,525	97.5%	1,517	0.7%	922	0.4%	772	0.3%	2,292	1.0%	221,028	100.0%

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

Credit Exposures to Companies in Workout, Restructuring or Rehabilitation

Workout is a voluntary procedure through which we, together with the borrower and other creditors, restructure a borrower s credit terms with a view to restoring its financial stability and viability. Previously, workouts were regulated under the prior Corporate Restructuring Promotion Act, which expired on December 31, 2013. In December 2013, the National Assembly of Korea adopted a new Corporate Restructuring Promotion Act, or the New Corporate Restructuring Promotion Act, which became effective on January 1, 2014. Workouts that had been initiated under the Corporate Restructuring Promotion Act are also governed by the New Corporate Restructuring Promotion Act effective from January 1, 2014. Under the New Corporate Restructuring Promotion Act, which is similar to the Corporate Restructuring Promotion Act, all creditor financial institutions of a financially troubled borrower are required to participate in a creditors committee which is authorized to prohibit such creditor financial institutions from exercising their rights against the borrower, commencing workout procedures or approving a reorganization plan prepared by the borrower. Any decision of the creditors committee requires the approval of creditor financial institutions holding not less than 75% of the total debt outstanding of a borrower. An additional approval of creditor financial institutions holding not less than 75% of the secured debt is required with respect to the borrower s debt restructuring. Once approved, any decision made by the creditors committee is binding on all the creditor financial institutions of the borrower. Creditor financial institutions that voted against commencement of workout, debt restructuring or granting of new credit have the right to request the creditor financial institutions that voted in favor of such matters to purchase their claims at a mutually agreed price. In the event that the parties are not able to agree on the terms of purchase, a coordination committee consisting of experts would determine the terms. The creditor financial institutions that oppose a decision made by the coordination committee may request a court to change such decision. The New Corporate Restructuring Promotion Act is scheduled to expire on December 31, 2015.

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

A portion of our loans to and debt securities of corporate customers are currently in workout, restructuring or rehabilitation. As of December 31, 2014, 1,368 billion, or 0.6%, of our total loans and debt securities were in workout, restructuring or rehabilitation. This included 728 billion of loans to and debt securities of large corporate borrowers in workout, restructuring or rehabilitation and 640 billion of loans to and debt securities of small- and medium-sized enterprises in workout, restructuring or rehabilitation, which represented 0.3% and 0.3% of our total loans and debt securities, respectively. Our Corporate Restoration Department manages our workout, restructured and rehabilitated loans. Upon approval of a workout, restructuring or rehabilitation plan, a credit exposure is initially classified as precautionary or lower and thereafter cannot be classified higher than precautionary with limited exceptions. If a corporate borrower is in workout, restructuring or rehabilitation, we take the status of the borrower into account in valuing our loans to and collateral from that borrower for purposes of establishing our allowance for credit losses.

The following table shows, as of December 31, 2014, our ten largest exposures that were in workout, restructuring or rehabilitation:

	Loans								
Company (Credit Rating)[1]	**Won Currency**	**Foreign Currency**	**Equity Securities**	**Debt Securities**	**Guarantees and Acceptances**	**Total Exposures**	**Collateral[2]**	**Amounts Classified as Substandard or Below[3]**	**Allowance for Credit Loss**
					(in billions of Won)				
Kumho Industrial (B+)	147		44		42	233	20		18
Dongja Project Finance (D)	120					120			16
Orient Ship Yard (D)					108	108		108	14
SsangYong Engineering & Construction Co., Ltd. (D)	15		21		56	92	17	25	1
Lake Hills Sunchon (D)	71					71		71	43
Dongmoon Construction Co., Ltd. (D)	69					69	38	31	9
Keangnam Enterprises, Ltd. (D)	38		5		22	65	25	38	29
Picity (D)	56					56	56	56	
Jeil Construction Co., Ltd. (D)	54					54	28	26	3
Goyang County Club (D)	54					54	41		4
Total	624		70		228	922	225	355	137

(1) Credit rating as of December 31, 2014, from one of the following Korean credit agencies: Korea Information Service Inc., National Information & Credit Evaluation, Inc. or Korea Ratings.

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

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

Potential Problem Loans

As of December 31, 2014, we had 2,029 billion of corporate loans in respect of which we had serious doubt as to the borrower s ability to comply with repayment terms in the near future. Potential problem loans are precautionary loans that we determine, through our internal loan review process, require close management due to the borrower s financial condition, our forecast for the industry in which it operates or as a result of other developments relating to its business. The following table shows changes in our potential problem loans (excluding discontinued operations) between December 31, 2013 and 2014:

	Amount (in billions of Won)
Balance of potential problem loans at December 31, 2013	2,240
Increase in the balance of potential problem loans to borrowers who became newly classified as borrowers with potential problem loans in 2014	1,285
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2013 and have non-performing loans outstanding at December 31, 2014	(260)
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2013 but no longer have any loans outstanding at December 31, 2014	(854)
Decrease in the balance of potential problem loans to borrowers to whom we had potential problem loans outstanding at December 31, 2013 but have loans outstanding classified as normal at December 31, 2014	(230)
Net decrease in the balance of potential problem loans to existing borrowers to whom we had potential problems loans outstanding at December 31, 2013	(152)
Balance at December 31, 2014	2,029

Non-Performing Loans

Non-performing loans include commercial and consumer loans which are past due by 90 days or more. In addition, non-performing loans include those loans that, even if they are not past due, are classified as substandard, doubtful or estimated loss based on the Financial Services Commission s asset classification criteria. Moreover, when a consumer loan borrower has any loans that are classified as substandard, doubtful or estimated loss under such criteria, all loans to such borrower are classified as non-performing loans. See Loan Classifications above. The following table shows, as of the dates indicated, certain details of our total non-performing loan portfolio:

	As of December 31,				
	2010	2011	2012	2013[(1)]	2014
	(in billions of Won, except percentages)				
Total non-performing loans	6,550[(2)]	3,780[(3)]	3,766[(4)]	4,996[(5)]	3,818[(6)]
As a percentage of total loans	3.25%	1.78%	1.70%	2.58%	1.84%

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
(2) Excludes 34 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(3) Excludes 43 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(4) Excludes 59 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(5) Excludes 49 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.
(6) Excludes 65 billion of previously delinquent credit card balances restructured into loans that were classified as normal or precautionary.

The above amounts do not include loans classified as substandard or below that we sold to Korea Asset Management Corporation, or KAMCO, United Asset Management Corp., or UAMCO, or to certain structured companies. See Sales of Non-Performing Loans.

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

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

	As of December 31,									
	2010		2011		2012		2013[1]		2014	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	5,317	81.2%	2,846	75.3%	2,652	70.4%	3,783	75.7%	2,751	72.1%
Lease financing	3	0.1	6	0.1	6	0.2				
Trade financing	245	3.7	98	2.6	183	4.9	343	6.9	160	4.2
Other commercial	526	8.0	281	7.4	377	10.0	313	6.3	300	7.8
Total corporate	6,091	93.0	3,231	85.4	3,218	85.5	4,439	88.9	3,211	84.1
Consumer										
General purpose household[2]	294	4.4	378	10.0	411	10.9	418	8.4	426	11.1
Mortgage	12	0.2	18	0.5	26	0.7	33	0.6	45	1.2
Total consumer	306	4.6	396	10.5	437	11.6	451	9.0	471	12.3
Credit cards	51	0.8	63	1.7	65	1.7	56	1.1	65	1.7
Total domestic	6,448	98.4	3,690	97.6	3,720	98.8	4,946	99.0	3,747	98.1
Foreign										
Corporate										
Commercial and industrial	65	1.0	90	2.4	42	1.1	47	0.9	51	1.3
Lease financing										
Trade financing									3	0.1
Other commercial										
Total corporate	65	1.0	90	2.4	42	1.1	47	0.9	54	1.4
Consumer	37	0.6			4	0.1	3	0.1	17	0.4
Total foreign	102	1.6	90	2.4	46	1.2	50	1.0	71	1.0
Total non- performing loans	6,550	100.0%	3,780	100.0%	3,766	100.0%	4,996	100.0%	3,818	100.0%

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.
(2) Includes home equity loans.

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The following table presents an analysis of the changes in our non-performing loans for 2014 (excluding discontinued operations):

	2014 (in billions of Won)
Non-performing loans as of January 1, 2014	4,996
Additions to non-performing loans	
Loans transferred into non-performing loans	3,104
Reductions in non-performing loans	
Loans transferred to the held-for-sale investment portfolio	
Loans sold	(816)
Loans modified and returned to performing loans	(914)
Loans paid down or paid off	(1,110)
Loans charged-off	(1,442)
Others	
Total net additions to non-performing loans	(1,178)
Total non-performing loans as of December 31, 2014	3,818

Top 20 Non-Performing Loans. As of December 31, 2014, our 20 largest non-performing loans accounted for 51.9% of our total non-performing loan portfolio. The following table shows, as of that date, certain information regarding those loans:

	Gross principal outstanding	Allowance for credit losses (in billions of Won)	Collateral[1]	Industry
Borrower A	373	188		Shipbuilding
Borrower B	303	206	214	Shipbuilding
Borrower C	212	106	145	Shipbuilding
Borrower D	184	89	184	Construction
Borrower E	121	59	30	Manufacturing
Borrower F	71	43		Real estate
Borrower G	67	2	4	Construction
Borrower H	65	3		Financial and insurance
Borrower I	61	14		Financial and insurance
Borrower J	57	4	57	Manufacturing
Borrower K	56		56	Real estate
Borrower L	53	53		Shipbuilding
Borrower M	48	5	48	Manufacturing
Borrower N	48	4	45	Retail and wholesale
Borrower O	48	16		Real estate
Borrower P	45	29	45	Financial and insurance
Borrower Q	43	12		Construction
Borrower R	43	7		Construction
Borrower S	42			Construction
Borrower T	40	28		Shipbuilding
Total	1,980	868	828	

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

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Non-Performing Loans and Impaired Loans

The term non-performing loan is used for our asset quality management in accordance with the Banking Industry Supervision Regulations of Korea, whereas the term impaired loan is used for financial reporting purposes based on our internal accounting policies in accordance with IAS 39*, Financial Instruments: Recognition and Measurement*.

Major differences between non-performing loans and impaired loans are as follows:

Item	Non-performing loans	Impaired loans
Relevant regulation or accounting principle	Banking Industry Supervision Regulations of Korea (loans classified as substandard, doubtful or estimated loss)	Our internal policy based on IAS 39
Scope	Loans	Loans and receivables (including due from banks and other receivables)
Purchased impaired loans	Not included	Included
Loans classified as precautionary based on the Financial Services Commission s asset classification criteria	Not included	Loans classified as precautionary, for which the borrower has a capital deficit or its auditor s opinion on its financial statements is modified or qualified, are included

The following table shows the amounts of impaired loans and non-performing loans as of December 31, 2012 to be directly comparable to such amounts as of December 31, 2013 and 2014:

	As of December 31,			
	2012			
	Continuing operations	Businesses to be disposed of	2013[1]	2014
	(in billions of Won)			
Impaired loans	5,554	2,215	5,517	4,742
Precautionary loans meeting the definition of impaired loans[2]	1,989		169	300
Others	3,565	2,215	5,348	4,442
Non-performing loans	3,079	687	4,996	3,818

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

(2) Includes loans that are individually significant where the borrower has a capital deficit or its external auditor has expressed a qualified opinion or disclaimed its opinion on the borrower s financial statements.

Non-Performing Loan Strategy

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

Our Credit Management and Collection Department and the Corporate Restoration Department generally oversee the process for resolving non-performing loans transferred to them by other business units. We believe that by centralizing the management of our non-performing loans, we can become more effective in dealing with the issues relating to these loans by pooling institutional knowledge and creating a more specialized workforce.

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

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

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

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

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

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

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

Foreclosure and Collateral. We generally foreclose on mortgages or exercise our security interests in respect of other collateral if a collateralized obligation becomes overdue for more than three months. At that time, we will petition a court to foreclose on collateral and to sell that collateral through a court-supervised auction. Under Korean law, that petition must be filed with a court that has jurisdiction over the mortgaged property, and must be filed together with a copy of the mortgage agreement and an extract of the court registry regarding the subject property. The court will then issue an order to commence the foreclosure auction, which will be registered in the court registry of the subject property. If no bidder bids at least the minimum amount set by the court on the first auction date, the court will set another date for a subsequent auction approximately one month later. Each time a new auction date is set, the minimum auction price will be lowered by approximately 20%. Unlike laws relating to foreclosure in the United States, Korean law does not provide for non-judicial foreclosure. During 2012, 2013 and 2014, excluding discontinued operations, we foreclosed on collateral we obtained with respect to loan balances representing approximately 0.5%, 0.4% and 0.3%, respectively, of our average interest-bearing loan balances in each of those periods.

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

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

Sales of Non-Performing Loans

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

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

	Year Ended December 31,								
	2012[1]			2013[1]			2014[1]		
Purchaser	**Net Carrying Amount[2]**	**Sale Price**	**Gain (Loss)**	**Net Carrying Amount[2]**	**Sale Price**	**Gain (Loss)**	**Net Carrying Amount[2]**	**Sale Price**	**Gain (Loss)**
	(in billions of Won)								
KAMCO				26	26				
Structured companies	518	462	(56)	249	257	8	296	309	13
UAMCO[3]	303	248	(55)	305	338	33	212	269	57
Others	13	103	90		1	1	136	151	15
Total	834	813	(21)	580	622	42	644	729	85

(1) The amounts for the years ended December 31, 2012, 2013 and 2014 reflect the classification of certain former subsidiaries as discontinued operations.
(2) Net carrying amount represents the net value of non-performing loans after deduction of allowance for credit losses on such basis.
(3) For the year ended December 31, 2012, includes sales to the private equity fund for which UAMCO serves as the general partner. See United Asset Management Corp.

Korea Asset Management Corporation. The Korean government has authorized KAMCO to purchase certain assets (primarily loans classified as substandard or below) from Korean financial institutions at discounted prices. In addition, from March 2009 to December 2014, the Korean government provided support to financial institutions and companies in the project finance industry by purchasing, through KAMCO, up to 4.7 trillion of project finance loans designated by the Financial Supervisory Service as endangered.

We derecognized all of the non-performing loans that had been transferred to KAMCO in 2012, 2013 and 2014, as we transferred substantially all of the risks and rewards of the non-performing loans to KAMCO in accordance with IAS 39, Financial Instruments Recognition and Measurement. Before 2010, however, we had entered into sales of loans subject to repurchase requirements, contingent put options as well as post-settlement obligations, which were derecognized under Korean generally accepted accounting principles before the adoption of IFRS in 2010. In accordance with the transition exemptions under IFRS 1, we did not reassess the derecognition criteria for these transactions at the time of transition.

As of December 31, 2014, 709 million (based on the initial sale price) of previously sold loans were subject to such repurchase obligations, contingent put options or post-settlement obligations, all of which had been derecognized under Korean generally accepted accounting principles.

United Asset Management Corp. United Asset Management Corp., or UAMCO, was established in late 2009 in the wake of the global financial crisis by six major commercial banks in Korea, including us, to purchase, sell and securitize non-performing loans and to engage in corporate restructuring activities, among

other things. We have committed to contribute 150 billion of capital to UAMCO, of which 73 billion has been contributed to date, and have also provided a credit line of 67 billion to UAMCO, under which no amounts have been drawn down to date. We and another bank each hold a 15% equity interest in UAMCO, while four other banks each hold a 17.5% equity interest. The other banks have also provided credit lines to UAMCO pro rata to their ownership interests. Therefore, we have neither control nor significant influence over UAMCO.

Pursuant to a memorandum of understanding among the Financial Supervisory Service and seven banks, including us, a private equity fund was established in June 2011 to acquire approximately 1.2 trillion of non-performing bank loans to construction companies in workout, restructuring or rehabilitation. The general partner of the fund is UAMCO and the limited partners consist of the seven banks and other investors. The fund purchases non-performing bank loans at market price and the funds required to purchase such loans are contributed or lent by the same banks that sell such loans to the fund. In June 2011, we agreed to make a capital commitment of 148 billion and provide a 109 billion revolving loan facility to the fund. From June to December 2011, we contributed the entire amount of our capital commitment to the fund in connection with its purchase of 443 billion of non-performing loans from us. In 2012, we made an additional capital contribution of 44 billion to the fund in connection with its purchase of 44 billion of non-performing loans from us. We have determined that we have significant influence over the private equity fund.

Under the terms of our sale of loans to UAMCO and the private equity fund, we are not required to repurchase any such loans, provide post-sale price adjustments or otherwise continue to be involved with such loans subsequent to their sale in any material respect. In addition, UAMCO and the private equity fund have the practical ability to sell non-performing loans in their entirety to unrelated third parties and are able to exercise such ability unilaterally without the need to impose additional restrictions, notwithstanding our ownership interest. Therefore, we believe we have not retained control over the transferred assets, and non-performing loans sold to UAMCO in 2012, 2013 and 2014 were derecognized in accordance with IAS 39, Financial Instruments Recognition and Measurement.

Structured companies. We transfer non-performing loans to structured companies, over the significant operations of which we do not have control. Most of the structured companies are investment funds that specialize in acquiring non-performing loans from Korean financial institutions, including us. In addition, we have not provided any financial guarantees or credit facilities nor invested in any such investment funds. As such, we believe that we have transferred substantially all of the risks and rewards of the relevant non-performing loans to the structured companies and have derecognized all non-performing loans that were transferred to structured companies in 2012, 2013 and 2014.

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

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Allocation and Analysis of Allowances for Credit Losses

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

	As of December 31,									
	2010		2011		2012[(1)]		2013[(1)(2)]		2014[(1)]	
	(in billions of Won, except percentages)									
Domestic										
Corporate										
Commercial and industrial	3,459	73.3%	2,690	71.6%	2,543	72.6%	2,336	69.9%	1,781	68.3%
Lease financing	5	0.1	5	0.1	4	0.1				
Trade financing	268	5.7	187	5.0	205	5.8	313	9.4	151	5.8
Other commercial	479	10.1	348	9.3	298	7.0	229	6.9	157	6.0
Total corporate	4,211	89.2	3,230	86.0	3,050	85.5	2,878	86.2	2,089	80.1
Consumer										
General purpose household[(3)]	208	4.4	249	6.6	307	8.6	284	8.5	301	11.5
Mortgage	5	0.1	8	0.2	20	0.6	15	0.4	19	0.7
Total consumer	213	4.5	257	6.8	327	9.2	299	8.9	320	12.2
Credit cards	126	2.7	132	3.5	128	3.6	106	3.2	129	4.9
Total domestic	4,550	96.4	3,619	96.3	3,505	98.3	3,283	98.3	2,538	97.2
Foreign										
Corporate										
Commercial and industrial	150	3.2	139	3.7	57	1.6	53	1.7	56	2.2
Lease financing										
Trade financing					1	0.0	1	0.0	4	0.2
Other commercial			1	0.0	2	0.1				
Total corporate	150	3.2	140	3.7	60	1.7	54	1.7	60	2.4
Consumer	18	0.4							11	0.4
Total foreign	168	3.6	140	3.7	60	1.7	54	1.7	71	2.8
Total allowance for credit losses	4,718	100.0%	3,759	100.0%	3,565	100.0%	3,337	100.0%	2,609	100.0%

(1) The amounts as of December 31, 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts as of December 31, 2012 (but not as of December 31, 2011 or 2010) were restated to retroactively apply such change.

(2) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

(3) Includes home equity loans.

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The following table presents an analysis of the changes in our allowances for credit losses for each of the years indicated, in each case including discontinued operations:

	Year ended December 31,				
	2010	2011	2012(1)	2013(1)	2014(1)
	(in billions of Won)				
Balance at the beginning of the period	3,508	4,718	3,759	3,565	3,337
Bad debt expenses for the period	3,025	2,085	2,107	2,557	1,076
Increase on repurchases of non-performing loans	10	4			
Gross charge-offs					
Domestic					
Corporate					
Commercial and industrial	(1,031)	(1,577)	(1,545)	(1,462)	(1,037)
Lease financing	(5)	(4)	(10)		
Trade financing	(100)	(238)	(108)	(108)	(62)
Other commercial	(63)	(304)	(117)	(47)	(68)
Total corporate	(1,199)	(2,123)	(1,780)	(1,617)	(1,167)
Consumer					
General purpose household(2)	(86)	(75)	(188)	(179)	(113)
Mortgage	(20)	(14)	(2)	(1)	(2)
Total consumer	(106)	(89)	(190)	(180)	(115)
Credit cards	(140)	(142)	(186)	(172)	(163)
Total domestic	(1,445)	(2,354)	(2,156)	(1,969)	(1,445)
Foreign	(61)	(15)	(60)	(8)	(7)
Allowances relating to loans sold	(268)	(538)	(163)	(161)	(150)
Total gross charge-offs	(1,774)	(2,907)	(2,379)	(2,138)	(1,602)
Recoveries:					
Domestic					
Corporate					
Commercial and industrial	65	33	152	140	53
Lease financing	1	1	1		
Trade financing	10	10	17	14	6
Other commercial	9	10	14	13	6
Total corporate	85	54	184	167	65
Consumer					
General purpose household(3)	11	8	46	34	6
Mortgage	1	9	8	8	3
Total consumer	12	17	54	42	9
Credit cards	65	33	34	26	28
Total domestic	162	104	272	235	102
Foreign	7		3	1	1
Total recoveries	169	104	275	236	103
Net charge-offs	(1,605)	(2,803)	(2,104)	(1,902)	(1,499)
Foreign exchange translation effects	(2)	34	(2)	(1)	1
Others(2)	(218)	(279)	(195)	(225)	(306)
Adjustment from discontinued operations				(657)	

Balance at the end of the period	4,718	3,759	3,565	3,337	2,609
Ratio of net charge-offs during the period to average loans outstanding during the period	0.8%	1.3%	1.2%	1.0%	0.8%

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(1) The amounts for 2013 and 2014 reflect a change in our accounting policies pursuant to the adoption of IFRS 10, Consolidated Financial Statements, which became effective beginning in 2013. Pursuant to IFRS 10, corresponding amounts for 2012 (but not for 2011 or 2010) were restated to retroactively apply such change.

(2) Includes home equity loans.

(3) Includes unwinding of discount.

Loan Charge-Offs

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

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

- loans for which collection is not foreseeable due to insolvency, bankruptcy, compulsory execution, disorganization, dissolution or the shutting down of the business of the debtor;
- loans for which collection is not foreseeable due to the death or disappearance of the debtor;
- loans for which expenses of collection exceed the collectable amount;
- loans on which collection is not possible through legal or any other means;
- payments in arrears in respect of credit cards that have been overdue for more than four payment cycles and have been classified as estimated loss (excluding instances where there has been partial payment of the overdue balance, where a related balance is not overdue or where a charge off is not possible due to Korean regulations), and those that have been overdue for more than six months;
- payments outstanding on corporate and consumer loans (other than credit card receivables) that have been overdue for more than 12 months, and those on unsecured consumer loans that have been overdue for more than six months; or
- the portion of loans classified as estimated loss, net of any recovery from collateral, which is deemed to be uncollectible.

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

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

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

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

Credit Rehabilitation Programs for Delinquent Consumer Borrowers

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

In 2002, the Financial Services Commission established the Credit Counseling and Recovery Service based upon an agreement among approximately 160 financial institutions in Korea. Upon application to the Credit Counseling and Recovery Service and approval by creditor financial institutions representing a majority of the outstanding unsecured debt and two-thirds of the outstanding secured debt, a qualified credit delinquent person with outstanding debts to two or more financial institutions in an aggregate amount not exceeding 500 million may participate in an individual work-out program designed to restructure such person s debt and rehabilitate such person s credit. The aggregate amount of our loans which became subject to such individual work-out programs in 2014 was 11 billion. In 2014, we recovered 3 billion with respect to our loans subject to such individual work-out programs.

In April 2006, the Korean Debtor Recovery and Bankruptcy Law took effect and replaced the Individual Debtor Rehabilitation Law. Under the Korean Debtor Recovery and Bankruptcy Law, a qualified individual debtor with outstanding debts in an aggregate amount not exceeding threshold amounts of 500 million of unsecured debt and/or 1 billion of secured debt may restructure his or her debts through a court-supervised debt restructuring that is binding on creditors. The aggregate amount of our loans which became subject to such court-supervised debt restructuring in 2014 was 116 billion. In 2014, we recovered 26 billion with respect to our loans subject to such court-supervised debt restructuring.

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

In March 2009, the Financial Services Commission requested Korean banks, including us, 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 rate adjustments are provided for retail borrowers with total loans of less than 1.5 billion (consisting of no more than 500 million of unsecured loans and 1 billion of secured loans) who are in arrears on their payments for more than 30 days but less than 90 days. The aggregate amount of our loans which became subject to the pre-workout program in 2014 was 24 billion. See Item 3D. Risk Factors Risks relating to our consumer credit portfolio We may experience increases in delinquencies in our consumer loan and credit card portfolios.

In March 2013, in order to support low income consumer borrowers experiencing difficulty in repaying their unsecured long-term debt, the Financial Services Commission announced the establishment of a National Happiness Fund (which supplements the above-described Credit Rehabilitation Fund), which provided one-time relief to such borrowers by:

- purchasing from creditors unsecured loans of individual borrowers not exceeding 100 million in principal amount in the aggregate, which loans were in arrears for a period of six months or more as of February 28, 2013 and, if requested by the borrower, reducing the balance of such loans up to 50% of the outstanding amount and/or extending the maturity of such loans up to 10 years based on the borrower s expected ability to repay;

- purchasing from certain creditors student loans of individual borrowers, which loans were in arrears for a period of six months or more as of February 28, 2013 and, if requested by the borrower, restructuring the balance and/or extending the maturity of such loans based on the borrower s expected ability to repay or until the borrower finds employment; and

- for individuals with annual income of 40 million or less with loans of a principal amount not exceeding 30 million in the aggregate and with an interest rate of 20% or higher, facilitating the refinancing of such loans at lower interest rates, provided that such loans were not in default during the six months prior to the application for relief.

Over 4,000 Korean financial institutions and private lenders, including us, signed a memorandum of understanding with the National Happiness Fund to sell eligible loans to the fund. The price and volume of such loans to be sold were subject to further negotiations between the National Happiness Fund and such financial institutions and lenders. The National Happiness Fund accepted applications from individual borrowers to participate in such relief programs until October 2013, or January 2014 for individual borrowers of student loans from the Korea Student Aid Foundation. In 2014, we sold 73 billion in aggregate principal amount of loans to the National Happiness Fund for an aggregate sale price of 3.5 billion.

Securities Investment Portfolio

Investment Policy

We invest in and trade Won-denominated securities and, to a lesser extent, foreign currency-denominated securities for our own account to:

- maintain asset stability and diversification;

- maintain adequate sources of back-up liquidity to match funding requirements; and

- supplement income from core lending activities.

In making securities investments, we take into account a number of factors, including external broker analyses and internal assessments of macroeconomic trends, industry analysis, credit evaluation and trading history in determining whether to make a particular investment.

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

Our securities investments are subject to various regulations, including limitations prescribed under the Bank Act. Under these regulations, we must limit our investments in equity securities and bonds with a maturity in excess of three years (other than monetary stabilization bonds issued by the Bank of Korea and Korean government bonds) to 100% of the sum of our total Tier I and Tier II capital amount (less any capital deductions). We are also generally prohibited from acquiring more than 15% of the shares with voting rights issued by any other corporation. We and our trust accounts are prohibited from acquiring the shares of any of our major shareholders, as defined in Supervision and

Regulation Principal Regulations Applicable to Banks Financial Exposure to Any Individual Customer or Major Shareholder, in excess of an amount

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determined by the Enforcement Decree of the Bank Act within a maximum limit of 1% of the sum of our Tier I and Tier II capital (less any capital deductions). Further information on the regulatory environment governing our investment activities is set out in Supervision and Regulation Principal Regulations Applicable to Banks Liquidity and Restrictions on Shareholdings in Other Companies.

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

Book Value and Fair Value

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

	As of December 31,					
	2012		2013[1]		2014	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
	(in billions of Won)					
Financial assets at fair value through profit and loss						
Financial assets held for trading						
Equity securities	706	706	196	196	100	100
Beneficiary certificates	755	755	167	167	48	48
CMA securities	1,937	1,937	201	201	32	32
Others	2,376	2,376	33	33	15	15
Debt securities						
Korean treasury and government agencies	2,405	2,405	574	574	669	669
Financial institutions	4,378	4,378	1,019	1,019	927	927
Corporate	5,998	5,998	409	409	621	621
Commercial paper	3,161	3,161				
Total Financial assets held for trading	21,716	21,716	2,599	2,599	2,412	2,412
Financial assets designated at FVTPL						
Equity-linked securities	651	651			6	6
Asset backed securities	385	385				
Debt securities	5	5	3	3		
Equity securities	12	12	11	11	11	11
Structured deposit	11	11				
Total Financial assets designated at FVTPL	1,064	1,064	14	14	17	17
Available-for-sale financial assets						
Equity securities	2,185	2,185	1,616	1,616	1,421	1,421
Beneficiary certificates	2,854	2,854	3,065	3,065	3,453	3,453
Others	202	202	275	275	750	750
Debt securities						
Korean treasury and government agencies	2,681	2,681	2,681	2,681	3,172	3,172
Financial institutions	6,050	6,050	6,512	6,512	6,731	6,731
Corporate	4,321	4,321	2,434	2,434	2,827	2,827
Asset backed securities	383	383	273	273	158	158
Foreign currency bonds	213	213	229	229	299	299
Total Available-for-sale financial assets	18,889	18,889	17,085	17,085	18,811	18,811

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	As of December 31,					
	2012		2013[(1)]		2014	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
			(in billions of Won)			
Held-to-maturity financial assets						
Debt securities						
Korean treasury and government agencies	7,665	7,835	4,729	4,770	4,128	4,211
Financial institutions	3,621	3,646	2,156	2,163	4,390	4,427
Corporate	7,352	7,485	5,131	5,190	4,470	4,573
Foreign government bonds	36	36	23	23	56	56
Securities loaned	11	11				
Total Held-to-maturity	18,685	19,013	12,039	12,146	13,044	13,267
Total securities	60,354	60,682	31,737	31,844	34,284	34,507

(1) The amounts as of December 31, 2013 exclude certain former subsidiaries classified as a disposal group held for distribution or sale.

Maturity Analysis

The following table categorizes our securities by maturity and weighted average yield as of December 31, 2014:

	As of December 31, 2014									
	Within 1 year		Over 1 but Within 5 years		Over 5 but Within 10 years		Over 10 years		Total	
	(in billions of Won, except percentages)									
	Amount	Weighted Average Yield[(1)]	Amount	Weighted Average Yield[(1)]	Amount	Weighted Average Yield[(1)]	Amount	Weighted Average Yield[(1)]	Amount	Weighted Average Yield[(1)]
Financial assets at fair value through profit or loss:										
Financial assets held for trading										
Korean treasury and government agencies	5	2.98%	607	3.02%	57	3.04%		%	669	3.02%
Financial institutions	506	2.99	421	2.67					927	2.84
Corporate	343	4.39	267	3.38	11	4.03			621	3.95
Total	854	3.55%	1,295	2.98%	68	3.20%		%	2,217	3.21%
Available-for-sale financial assets										
Korean treasury and government agencies	723	3.09%	1,987	3.07%	410	3.33%	52	3.32%	3,127	3.11%
Financial institutions	2,766	2.77	3,924	2.71	41	2.84			6,731	2.74
Corporate	1,087	3.55	1,596	3.31	140	3.08	4	3.09	2,827	3.39
Asset backed securities	85	6.04	0	0	73	8.00			158	6.94
Foreign currency bonds	80	4.79	171	2.83	19	10.98	29	5.86	299	4.17
Total	4,741	3.09%	7,678	2.93%	683	3.96%	85	4.19%	13,187	3.05%
Held-to-maturity financial assets										
Korean treasury and government agencies	1,306	4.00%	2,765	3.28%	57	4.93%		%	4,128	3.53%
Financial institutions	2,517	2.64	1,873	3.10					4,390	2.84
Corporate	651	4.04	3,533	3.66	42	4.59	244	3.90	4,470	3.74
Foreign currency bonds	20	6.61	10	3.29	12	3.93	14	6.63	56	5.44

Total	4,494	3.26%	8,181	3.40%	111	4.69%	258	4.05%	13,044	3.38%

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

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Risk Concentrations

As of December 31, 2014, we held the following securities of individual issuers where the aggregate book value of those securities exceeded 10% of our owners equity at such date. As of December 31, 2014, our owners equity was 17,983 billion.

	As of December 31, 2014	
	Book Value	Market Value
	(in billions of Won)	
Name of issuer:		
Korean government	7,879	7,962
The Bank of Korea	5,136	5,140
Korea Land & Housing Corporation	2,039	2,070
The Korea Development Bank	2,290	2,300
Total	17,344	17,472

The Bank of Korea, Korea Land & Housing Corporation and the Korea Development Bank are Korean government entities.

Funding

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

Customer deposits are our principal funding source. Customer deposits accounted for 76.7% of our total funding as of December 31, 2012, 81.3% of our total funding (excluding discontinued operations) as of December 31, 2013, and 80.7% of our total funding as of December 31, 2014.

We also acquire funding through the following sources:

- long-term debt, including the issuance of senior and subordinated debentures and borrowings from government-affiliated funds and entities and other financial institutions;
- short-term borrowings, including borrowings from our trust accounts and from the Bank of Korea, and call money; and
- the issuance of hybrid securities, including bond-type hybrid securities.

As of December 31, 2014, approximately 87.5% of our total funding was denominated in Won.

Deposits

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

For the year ended December 31,

	2012[1]		2013[1]		2014[1]	
	Average Balance[2]	Average Cost	Average Balance[2]	Average Cost	Average Balance[2]	Average Cost
	(in billions of Won, except percentages)					
Demand deposits	9,641	0.28%	9,397	0.40%	9,312	0.45%
Time deposits and savings deposits	138,660	2.97	140,981	2.39	153,789	2.07
Certificates of deposit	694	3.46	2,316	2.81	1,984	2.72
Other deposits[3]	18,131	1.85	14,243	1.25	14,386	1.15
Average total deposits	167,126	2.70%	166,937	2.19%	179,471	1.92%

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(1) The amounts for the years ended December 31, 2012, 2013 and 2014 reflect the classification of certain former subsidiaries as discontinued operations.
(2) Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.
(3) Mutual installment deposits are interest-bearing deposits offered by us, which enable customers to become eligible to apply for loans secured by such deposits while they maintain an account with us. In order to qualify to apply for such a loan, a customer must make required periodic deposits to the mutual installment account for a contracted term of less than five years. Any such loan will be secured in an amount up to the holder s mutual installment deposit and will be subject to the same loan underwriting policy we apply for other secured loans. For the portion of the loan, if any, that is not secured, we apply the same loan underwriting policy as we would for other unsecured loans.

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

Maturities of Certificates of Deposit and Other Time Deposits

The following table presents, as of December 31, 2014, the remaining maturities of our time deposits, certificates of deposit and mutual installment deposits which had fixed maturities in excess of 100 million:

	As of December 31, 2014			
	Certificates of Deposit	Other Time Deposits	Mutual Installment Deposits	Total
	(in billions of Won)			
Maturing within three months	536	23,367		23,903
After three but within six months	41	17,196		17,237
After six but within 12 months	120	33,853		33,973
After 12 months	5	4,749		4,754
Total	702	79,165		79,867

Long-Term Debt

The aggregate amount of contractual maturities of all long-term debt, which consist of debentures and borrowings with original maturities exceeding one year, as of December 31, 2014 was as follows:

	Amount (in billions of Won)
Due in 2015	13,700
Due in 2016	7,932
Due in 2017	3,706
Due in 2018	1,918
Due in 2019	1,171
Thereafter	5,033
Gross long-term debt	33,460
Less: discount	(69)
Total long-term debt, net	33,391

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Short-Term Borrowings

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

	As of and for the year ended December 31,		
	2012	2013[(1)]	2014
	(in billions of Won, except percentages)		
Call money			
Year-end balance	5,784	4,872	1,772
Average balance[(2)]	3,486	1,570	2,117
Maximum balance	5,784	3,967	4,975
Average interest rate[(3)]	1.60%	0.8%	1.4%
Year-end interest rate	0.05~4.35%	0.30~3.00%	0.26~3.90%
Borrowings from the Bank of Korea[(4)]			
Year-end balance	958	514	803
Average balance[(2)]	923	693	587
Maximum balance	1,089	824	806
Average interest rate[(3)]	1.30%	1.00%	0.90%
Year-end interest rate	1.50%	0.57~2.42%	0.50~1.00%
Other short-term borrowings [(5)]			
Year-end balance	18,191	5,337	7,059
Average balance[(2)]	18,080	5,204	6,397
Maximum balance	19,808	6,420	7,415
Average interest rate[(3)]	1.56%	1.63%	1.61%
Year-end interest rate	0.55~8.72%	0.59~2.84%	0.40~4.12%

(1) The amounts as of and for the year ended December 31, 2013 reflect the classification of certain former subsidiaries as discontinued operations.
(2) Average balances are based on daily balances for us and on quarterly balances for all of our subsidiaries and our structured companies.
(3) Average interest rates for the year are calculated by dividing the total interest expense by the average amount borrowed.
(4) Borrowings from the Bank of Korea generally mature within one month for borrowings in Won and six months for borrowings in foreign currencies.
(5) Other short-term borrowings include borrowings from trust accounts, bills sold, borrowings in domestic and foreign currency, short-term secured borrowings and foreign currency debentures. Other short-term borrowings have maturities of 30 days to one year and are unsecured.

Supervision and Regulation

Principal Regulations Applicable to Banks

General

The banking system in Korea is governed by the Bank Act of 1950, as amended and the Bank of Korea Act of 1950, as amended. In addition, Korean banks are subject to the regulations and supervision of the Bank of Korea, the Monetary Policy Committee of the Bank of Korea, the Financial Services Commission and its executive body, the Financial Supervisory Service.

The Bank of Korea, established in June 1950 under the Bank of Korea Act, performs the customary functions of a central bank. It seeks to contribute to the sound development of the national economy by price stabilization through establishing and implementing efficient monetary and credit policies. The Bank of Korea acts under instructions of the Monetary Policy Committee, the supreme policy-making body of the Bank of Korea.

Under the Bank of Korea Act, the Monetary Policy Committee s primary responsibilities are to formulate monetary and credit policies and to determine the operations, management and administration of the Bank of Korea.

The Financial Services Commission, established on April 1, 1998, regulates commercial banks pursuant to the Bank Act, including establishing guidelines on capital adequacy of commercial banks, and promulgates regulations relating to supervision of banks. Furthermore, the Financial

Services Commission regulates market entry into the banking business.

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The Financial Supervisory Service was established on January 2, 1999 as a unified body of the former Bank Supervisory Authority (the successor to the Office of Bank Supervision), the Securities Supervisory Board, the Insurance Supervisory Board and the Credit Management Fund. The Financial Supervisory Service is subject to the instructions and directives of the Financial Services Commission and carries out supervision and examination of commercial banks. In particular, the Financial Supervisory Service sets requirements both for the prudent control of liquidity and for capital adequacy and establishes reporting requirements pursuant to the authority delegated to it under the Financial Services Commission regulations, pursuant to which banks are required to submit annual reports on financial performance and shareholdings, regular reports on management strategy and non-performing loans, including write-offs, and management of problem companies and plans for the settlement of bad loans.

Under the Bank Act, approval to commence a commercial banking business or a long-term financing business must be obtained from the Financial Services Commission. Commercial banking business is defined as the lending of funds acquired predominantly from the acceptance of demand deposits for a period not exceeding one year or subject to the limitation established by the Financial Services Commission, for a period between one year and three years. Long-term financing business is defined as the lending, for periods in excess of one year, of funds acquired predominantly from paid-in capital, reserves or other retained earnings, the acceptance of time deposits with maturities of at least one year, or the issuance of debentures or other bonds. A bank wishing to enter into any business other than commercial banking and long-term financing businesses, such as the trust business, must obtain approval from the Financial Services Commission. Approval to merge with any other banking institution, to liquidate, to spin off, to close a banking business or to transfer all or a part of a business must also be obtained from the Financial Services Commission.

If the Financial Services Commission deems a bank s financial condition to be unsound or if a bank fails to meet the applicable capital adequacy ratio set forth under Korean law, the Financial Services Commission may order:

- Admonitions or warnings with respect to its officers;
- capital increases or reductions;
- assignments of contractual rights and obligations relating to financial transactions;
- a suspension of performance by its officers of their duties and the appointment of receivers;
- disposals of property holdings or closures of subsidiaries or branch offices or downsizing;
- stock cancellations or consolidations;
- mergers with other financial institutions;
- acquisition of such bank by a third party; or
- suspensions of a part or all of its business operations.

Capital Adequacy

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

Under the Detailed Regulation on the Supervision of Banking Business, the capital of a bank is divided into two categories, Tier I and Tier II capital. Tier I capital (core capital) consists of (i) Tier I common equity capital, including paid-in capital, capital surplus and retained earnings related to common equity and accumulated other comprehensive gains and losses, and (ii) other Tier I capital, including paid-in capital and capital surplus related to hybrid Tier I capital instruments that, among other things, qualify as contingent capital and are subordinated to subordinated debt. Tier II capital (supplementary capital) consists of, among other things, capital and capital surplus from the issuance of Tier II capital instrument, allowances for loan losses on loans classified as normal

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or precautionary, subordinated debt and other capital securities which meet the standards prescribed by the governor of the Financial Supervisory Service under Article 26(2) of the Regulation on the Supervision of Banking Business.

All banks must meet minimum ratios of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets, determined in accordance with Financial Services Commission requirements that have been formulated based on BIS standards. These requirements were adopted and became effective in 1996, and were amended effective January 1, 2008 upon the implementation by the Financial Supervisory Service of Basel II. Under such requirements, all domestic banks and foreign bank branches must meet a minimum ratio of Tier I and Tier II capital (less any capital deductions) to risk-weighted assets of 8.0%. In July and September 2013, the Financial Services Commission promulgated amended regulations implementing Basel III in Korea, pursuant to which Korean banks and bank holding companies were required to maintain a minimum ratio of Tier I common equity capital 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 were increased to 4.0% and 5.5%, respectively, from January 1, 2014 and increased 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.

Under the Detailed Regulation on the Supervision of the Banking Business, the following risk-weight ratios must be applied by Korean banks in respect of home mortgage loans:

(1) for those banks which adopted a standardized approach for calculating credit risk capital requirements, a risk-weight ratio of 35% (only in the case where the loan is fully secured by a first ranking mortgage) and, with respect to high-risk home mortgage loans, 50%; and

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

Liquidity

All banks are required to ensure adequate liquidity by matching the maturities of their assets and liabilities in accordance with the Regulation on the Supervision of the Banking Business. Banks may not invest an amount exceeding 100% of their Tier I and Tier II capital (less any capital deductions) in equity securities and certain other securities with a redemption period of over three years. This stipulation does not apply to Korean government bonds, Monetary Stabilization Bonds issued by the Bank of Korea or debentures and stocks referred to in items 1 and 2, respectively, of paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry. Prior to an amendment of the Regulation on the Supervision of the Banking Business, which took effect on January 1, 2015, the Financial Services Commission also required each Korean bank to maintain a Won liquidity ratio of not less than 100% (deemed an advisory ratio) and to make monthly reports to the Financial Services Commission. The Won liquidity ratio is calculated by dividing certain Won-denominated financial assets and the net settlement amount related to derivative contracts that have one month or less to maturity, which are referred to as Won current assets, by certain Won-denominated liabilities and the net settlement amount related to derivatives contracts that have one month or less to maturity, which are referred to as Won current liabilities. Beginning on January 1, 2015, the Financial Services Commission has phased out the Won liquidity ratio and introduced the liquidity coverage ratio, defined as the ratio of highly liquid assets to total net cash outflows over a one-month period, as the principal liquidity risk management measure. Currently, the Financial Services Commission requires each Korean bank to:

- maintain a liquidity coverage ratio of not less than 80% from January 1, 2015 to December 31, 2015, subject to certain exceptions, with such minimum liquidity coverage ratio to increase in increments of 5% per year to 100% by 2019;

maintain a foreign currency liquidity ratio (defined as the ratio of foreign currency assets due within three months to foreign currency liabilities due within three months) of not less than 85%;

maintain a ratio of foreign currency assets due within seven days less foreign currency liabilities due within seven days, divided by total foreign currency assets, of not less than negative 3%;

maintain a ratio of foreign currency assets due within a month less foreign currency liabilities due within a month, divided by total foreign currency assets, of not less than negative 10%; and

submit monthly reports with respect to the maintenance of these ratios.

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

7% of average balances for Won currency demand deposits outstanding;

0% of average balances for Won currency employee asset establishment savings deposits, employee long-term savings deposits, employee house purchase savings deposits, long-term house purchase savings deposits, household long-term savings deposits and employee preferential savings deposits outstanding (with respect to employee-related deposits, only if such deposits were made before February 28, 2013); and

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

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

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

Financial Exposure to Any Individual Customer or Major Shareholder

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

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

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

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

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

Interest Rates

Korean banks generally depend on deposits as their primary funding source. Under the Act on Registration of Credit Business and Protection of Finance Users, interest rates on loans made by registered banks in Korea may not exceed 34.9% per annum. Historically, interest rates on deposits and lending rates were regulated by the Monetary Policy Committee. Controls on deposit interest rates in Korea have been gradually reduced and, in February 2004, the Korean government removed restrictions on all interest rates, except for the prohibition on interest payments on current account deposits. This deregulation process has increased competition for deposits based on interest rates offered and, therefore, may increase a bank s interest expense.

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Lending to Small- and Medium-Sized Enterprises

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

- require the bank to prepay all or a portion of funds provided to that bank in support of loans to small- and medium-sized enterprises; or

- lower the bank s credit limit.

Disclosure of Management Performance

For the purpose of protecting depositors and investors in commercial banks, the Financial Services Commission requires commercial banks to publicly disclose certain material matters, including:

- financial condition and profit and loss of the bank and its subsidiaries;

- fund raising by the bank and the appropriation of such funds;

- any sanctions levied on the bank under the Bank Act or any corrective measures or sanctions under the Law on Improvement of Structure of Financial Industry; and

- except as may otherwise have been disclosed by a bank or its financial holding company listed on the KRX KOSPI Market in accordance with the Financial Investment Services and Capital Markets Act, occurrence of any of the following events or any other event as prescribed by the applicable regulations:

(i) loans bearing no profit made to a single business group in an amount exceeding 10% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month (where the loan exposure to that borrower is calculated pursuant to the criteria under the Detailed Regulation on the Supervision of the Banking Business), unless the loan exposure to that group is not more than 4 billion;

(ii) the occurrence of any financial incident involving embezzlement, malfeasance or misappropriation of funds with respect to which damages are expected to exceed 1 billion, or any financial incident regarding which the governor of the Financial Supervisory Service has made a public announcement; and

(iii) any loss due to court judgments or similar decisions in civil proceedings in an amount exceeding 1% of the sum of the bank s Tier I and Tier II capital (less any capital deductions) as of the end of the previous month, unless the loss is not more than 1 billion.

Restrictions on Lending

Pursuant to the Bank Act, commercial banks may not provide:

- loans directly or indirectly secured by a pledge of a bank s own shares;

loans directly or indirectly to enable a natural or juridical person to buy the bank s own shares;

loans to any of the bank s officers or employees, other than *de minimis* loans of up to (i) 20 million in the case of a general loan, (ii) 50 million in the case of a general loan plus a housing loan or (iii) 60 million in the aggregate for general loans, housing loans and loans to pay damages arising from wrongful acts of employees in financial transactions;

credit (including loans) secured by a pledge of shares of a subsidiary corporation of the bank or to enable a natural or juridical person to buy shares of a subsidiary corporation of the bank; or

loans to any officers or employees of a subsidiary corporation of the bank, other than general loans of up to 20 million or general and housing loans of up to 50 million in the aggregate.

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Regulations Relating to Retail Household Loans

The Financial Services Commission has implemented a number of changes in recent years to the regulations relating to retail household lending by banks. Under the currently applicable regulations:

- as to loans secured by collateral of housing (including apartments) located nationwide, the loan-to-value ratio (the aggregate principal amount of loans secured by such collateral over the appraised value of the collateral) should not exceed 60%;

- as to loans secured by collateral of housing (including apartments) located in areas of excessive investment or housing (excluding apartments) located in areas of high speculation, in each case as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than three years should not exceed 50%, and (ii) the loan-to-value ratio for loans with a maturity of more than three years should not exceed 60%;

- as to loans secured by collateral of housing located outside of Seoul, Incheon and Gyeong-gi province, which housing was offered for sale on or before June 10, 2008 and with respect to which a sale contract is executed and earnest money deposit paid during the period between June 11, 2008 and June 30, 2009, the loan-to-value ratio should not exceed 70%;

- as to loans secured by apartments located in areas of high speculation as designated by the government, (i) the loan-to-value ratio for loans with a maturity of not more than ten years should not exceed 40%; and (ii) the loan-to-value ratio for loans with a maturity of more than ten years should not exceed (a) 40%, if the price of such apartment is over 600 million, and (b) 60%, if the price of such apartment is 600 million or lower;

- as to loans secured by collateral of housing (regardless of housing type or location) to be amortized over a period of 10 years, further requirements relating to which are set forth in the Regulation on the Supervision of Banking Business, the loan-to-value ratio should not exceed 70%;

- as to loans secured by apartments with appraisal value of more than 600 million in areas of high speculation as designated by the government or certain metropolitan areas designated as areas of excessive investment by the government, the borrower s debt-to-income ratio (calculated as (i) the aggregate annual total payment amount of (x) the principal of and interest on loans secured by such apartment(s) and (y) the interest on other debts of the borrower over (ii) the borrower s annual income) should not exceed 40%;

- as to apartments located in areas of high speculation as designated by the government, a borrower is permitted to have only one new loan secured by such apartment;

- where a borrower has two or more loans secured by apartments located in areas of high speculation as designated by the government, the loan with the earliest maturity date must be repaid first and the number of loans must be eventually reduced to one; and

- in the case of a borrower (i) whose spouse already has a loan secured by housing or (ii) who is single and under 30 years old, the debt-to-income ratio of the borrower in respect of loans secured by apartment(s) located in areas of high speculation as designated by the government should not exceed 40%.

Restrictions on Investments in Property

A bank may not invest in securities set forth below in excess of 100% of the sum of the bank s Tier I and Tier II capital (less any capital deductions):

debt securities (within the meaning of paragraph (3) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years, but excluding government bonds, monetary stabilization bonds issued by the Bank of Korea and bonds within the meaning of item 2, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

equity securities, but excluding securities within the meaning of item 1, paragraph (6) of Article 11 of the Act on the Improvement of the Structure of the Financial Industry;

derivatives linked securities (within the meaning of paragraph (7) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years; and

beneficiary certificates, investment contracts and depositary receipts (within the meaning of paragraph (2) of Article 4 of the Financial Investment Services and Capital Markets Act) the maturity of which exceeds three years.

A bank may possess real estate property only to the extent necessary for the conduct of its business. The aggregate value of such property may not exceed 60% of the sum of the bank s Tier I and Tier II capital (less any capital deductions). Any property that a bank acquires by exercising its rights as a secured party, or which a bank is prohibited from acquiring under the Bank Act, must be disposed of within one year.

Restrictions on Shareholdings in Other Companies

Under the Bank Act, a bank may not own more than 15% of shares outstanding with voting rights of another corporation, except where, among other reasons:

that corporation engages in a category of financial businesses set forth by the Financial Services Commission; or

the acquisition of shares by the bank is necessary for the corporate restructuring of such corporation and is approved by the Financial Services Commission.

In the above cases, the total investment in corporations in which the bank owns more than 15% of the outstanding shares with voting rights may not exceed (i) 15% of the sum of Tier I and Tier II capital (less any capital deductions) or (ii) 30% of the sum of Tier I and Tier II capital (less any capital deductions) where the acquisition satisfies the requirements determined by the Financial Services Commission.

The Bank Act provides that a bank using its bank accounts and its trust accounts is not permitted to acquire the shares issued by the major shareholder of such bank in excess of an amount equal to 1% of the sum of Tier I and Tier II capital (less any capital deductions).

Restrictions on Bank Ownership

Under the Bank Act, a single shareholder and persons who have a special relationship with that shareholder generally may acquire beneficial ownership of no more than 10% of a nationwide bank s total issued and outstanding shares with voting rights and no more than 15% of a regional bank s total issued and outstanding shares with voting rights. The Korean government, the KDIC and bank holding companies qualifying under the Financial Holding Company Act are not subject to this limit. However, pursuant to an amendment to the Bank Act which became effective on February 14, 2014, non-financial business group companies may not acquire beneficial ownership of shares of a nationwide bank in excess of 4% of that bank s outstanding voting shares (or 15% in the case of a regional bank), unless they satisfy certain requirements set forth by the Enforcement Decree of the Banking Act, obtain the approval of the Financial Services Commission and agree not to exercise voting rights in respect of shares in excess of the 4% limit (or the 15% limit in the case of a regional bank), in which case they may acquire beneficial ownership of up to 10% of a nationwide bank s outstanding voting shares. Such amendment grants an exception for non-financial business group companies which, at the time of the enactment of the amended provisions, held more than 4% of the shares of a bank.

Non-financial business group companies as defined under the Bank Act include:

(1) any same shareholder group with aggregate net assets of all non-financial business companies belonging to such group of not less than 25% of the aggregate net assets of all members of such group;

(2) any same shareholder group with aggregate assets of all non-financial business companies belonging to such group of not less than 2 trillion;

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(3) any mutual fund in which a same shareholder group identified in item (1) or (2) above beneficially owns and/or exercises the voting rights of more than 4% of the total issued and outstanding voting shares of such mutual fund;

(4) any private equity fund with (a) a person falling under any of items (1) through (3) above as a limited partner holding not less than 10% of the total amount of contributions to the private equity fund, or (b) a person falling under any of items (1) through (3) above as a general partner, or (c) the total equity of the private equity fund acquired by each affiliate belonging to several enterprise groups subject to the limitation on mutual investment being 30% or more of the total amount of contributions to the private equity fund; or

(5) any investment purpose company in which a private equity fund falling under item (4) above acquires or holds shares in excess of 4% of the shares or equity of such company or exercises de facto control over significant managerial matters of such company through appointment or dismissal of executives or in any other manner.

In addition, if a foreign investor, as defined in the Foreign Investment Promotion Act, owns in excess of 4% of a nationwide bank s outstanding voting shares, non-financial business group companies may acquire beneficial ownership of up to 10% of that bank s outstanding voting shares (or 15% in the case of a regional bank), and in excess of 10% (or 15% in the case of a regional bank), 25% or 33% of that bank s outstanding voting shares with the approval of the Financial Services Commission in each instance, up to the number of shares owned by the foreign investor. Any other person (whether a Korean national or a foreign investor), with the exception of non-financial business group companies described above, may acquire no more than 10% of a nationwide bank s total voting shares issued and outstanding, unless they obtain approval from the Financial Services Commission in each instance where the total holding will exceed 10% (or 15% in the case of regional banks), 25% or 33% of the bank s total voting shares issued and outstanding provided that, in addition to the foregoing threshold shareholding ratios, the Financial Services Commission may, at its discretion, designate a separate and additional threshold shareholding ratio.

Deposit Insurance System

The Depositor Protection Act provides insurance for certain deposits of banks in Korea through a deposit insurance system. Under the Depositor Protection Act, all banks governed by the Bank Act are required to pay an insurance premium to the KDIC on a quarterly basis and the rate is determined under the Enforcement Decree to the Depositor Protection Act. If the KDIC makes a payment on an insured amount, it will acquire the depositors claims with respect to that payment amount. The KDIC insures a maximum of 50 million per individual for deposits and interest in a single financial institution, regardless of when the deposits were made and the size of the deposits. Certain banks governed by the Bank Act, including us, are also required by the Deposit Insurance Act to pay a special contribution of 0.025% of average deposits for each quarter as repayment of the governmental funding provided to such banks in the wake of the financial crisis in Korea in the late 1990s. The Depositor Protection Act requires such special contribution to be paid until 2027.

Laws and Regulations Governing Other Business Activities

A bank must register with the Ministry of Strategy and Finance to enter the foreign exchange business, which is governed by the Foreign Exchange Transaction Act of Korea. A bank must obtain the permission of the Financial Services Commission to enter the securities business, which is governed by regulations under the Financial Investment Services and Capital Markets Act. Under these laws, a bank may engage in the foreign exchange business, securities repurchase business, governmental/public bond underwriting business and governmental bond dealing business.

Regulations on Trust Business

A bank must obtain approval from the Financial Services Commission to engage in trust businesses. The Trust Act and the Financial Investment Services and Capital Markets Act govern the trust activities of banks, and they are subject to various legal and accounting procedures and requirements, including the following:

- under the Trust Act, assets accepted in trust by a bank in Korea must be segregated from other assets in the accounts of that bank; and

- depositors and other general creditors cannot obtain or assert claims against the assets comprising the trust accounts in the event the bank is liquidated or wound-up.

The bank must make a special reserve of 25% or more of fees from each unspecified money trust account for which a bank guarantees the principal amount and a fixed rate of interest until the total reserve for that account equals 5% of the trust amount. Since January 1999, the Korean government has prohibited Korean banks from offering new guaranteed fixed rate trust account products whose principal and interest are guaranteed.

Under the Financial Investment Services and Capital Markets Act, which became effective in February 2009, a bank with a trust business license (such as us) is permitted to offer both specified money trust account products and unspecified money trust account products. Previously, banks were not permitted to offer unspecified money trust account products pursuant to the Indirect Investment Asset Management Act, which is no longer in effect following the effectiveness of the Financial Investment Services and Capital Markets Act.

Regulations on Credit Card Business

General

In order to enter the credit card business, a company must register with the Financial Services Commission. Credit card businesses are governed by the Specialized Credit Financial Business Act, enacted on August 28, 1997 and last amended on March 30, 2015, which sets forth specific requirements with respect to the credit card business as well as generally prohibiting unsound business practices relating to the credit card business which may infringe on the rights of credit card holders or negatively affect the soundness of the credit card industry. Credit card companies, including our wholly-owned subsidiary, Woori Card, are regulated by the Financial Services Commission and the Financial Supervisory Service.

Disclosure and Reports

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company is required to disclose on a periodic and on-going basis certain material matters and events. In addition, a credit card company must submit its business reports with respect to its results of operations to the Governor of the Financial Supervisory Service within one month from the end of each quarter.

Restrictions on Funding

Under the Specialized Credit Financial Business Act and the regulations thereunder, a credit card company must ensure that its total assets do not exceed an amount equal to six times its equity capital. However, if a credit card company is unable to comply with such limit upon the occurrence of unavoidable events, such as drastic changes in the domestic and global financial markets, such limit may be adjusted through a resolution of the Financial Services Commission.

Risk of Loss Due to Lost, Stolen, Forged or Altered Credit Cards

Under the Specialized Credit Financial Business Act, a credit card company is liable for any loss arising from the unauthorized use of credit cards or debit cards after it has received notice from the holder of the loss or theft of the card. A credit card company is also responsible for any losses resulting from the use of forged or altered credit cards, debit cards and pre-paid cards. A credit card company may, however, transfer all or part of this latter risk of loss to holders of credit card in the event of willful misconduct or gross negligence by holders of credit card if the terms and conditions of the agreement entered between the credit card company and members of such cards specifically provide for that transfer.

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For these purposes, disclosure of a customer s password that is made intentionally or through gross negligence, or the transfer of or giving as collateral of the credit card or debit card, is considered willful misconduct or gross negligence. However, a disclosure of a cardholder s password that is made under irresistible force or threat to cardholder or his/her relatives life or health will not be deemed as willful misconduct or negligence of the cardholder.

Each credit card company must institute appropriate measures to fulfill these obligations, such as establishing provisions, purchasing insurance or joining a cooperative association.

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a credit card company will be liable for any losses arising from loss or theft of a credit card (which was not from the holder s willful misconduct or negligence) during the period beginning 60 days before the notice by the holder to the credit card company.

Pursuant to the Specialized Credit Financial Business Act, the Financial Services Commission may either restrict the limit or take other necessary measures against the credit card company with respect to such matters as the maximum limits on the amount per credit card, details of credit card terms and conditions, management of credit card merchants and collection of claims, including the following:

- maximum limits for cash advances on credit cards;
- use restrictions on debit cards with respect to per day or per transaction usage;
- aggregate issuance limits and maximum limits on the amount per card on pre-paid cards; and
- other matters prescribed by the Enforcement Decree to the Specialized Credit Financial Business Act.

Lending Ratio in Ancillary Business

Pursuant to the Enforcement Decree to the Specialized Credit Financial Business Act, a credit card company must maintain an aggregate quarterly average outstanding lending balance to credit cardholders (including cash advances and credit card loans, but excluding restructured loans) no greater than the sum of (i) its aggregate quarterly average outstanding credit card balance arising from the purchase of goods and services and (ii) the aggregate quarterly debit card transaction volume.

Issuance of New Cards and Solicitation of New Cardholders

The Enforcement Decree to the Specialized Credit Financial Business Act establishes the conditions under which a credit card company may issue new cards and solicit new members. New credit cards may be issued only to the following persons:

- persons who are at least 19 years old when they apply for a credit card;
- persons whose capability to pay bills as they come due has been verified using standards established by the credit card company; and
- in the case of minors who are 18 years old, persons who submit documents evidencing employment as of the date of the credit card application, such as an employment certificate, or persons for whom the issuance of a credit card is necessitated by governmental policies, such as financial aid.

In addition, a credit card company may not solicit credit card members by:

providing economic benefits or promising to provide economic benefits in excess of 10% of the annual credit card fee (in the case of credit cards with annual fees that are less than the average of the annual fees charged by the major credit cards in Korea, the annual fee will be deemed to be equal to such average annual fee) in connection with issuing a credit card;

soliciting applicants on roads, public places or along corridors used by the general public;

soliciting applicants through visits, except those visits made upon prior consent and visits to a business area;

- soliciting applicants through the Internet without verifying whether the applicant is who he or she purports to be, by means of a certified digital signature under the Digital Signature Act; and

- soliciting applicants through pyramid sales methods.

Compliance Rules on Collection of Receivable Claims

Pursuant to Supervisory Regulation on the Specialized Credit Financial Business, a credit card company may not:

- exert violence or threaten violence;

- inform a related party (a guarantor of the debtor, blood relative or fiancée of the debtor, a person living in the same household as the debtor or a person working in the same workplace as the debtor) of the debtor s obligations without just cause;

- provide false information relating to the debtor s obligation to the debtor or his or her related parties;

- threaten to sue or sue the debtor for fraud despite lack of affirmative evidence to establish that the debtor has submitted forged or false documentation with respect to his/her capacity to make payment;

- visit or telephone the debtor during late evening hours (between the hours of 9:00 p.m. and 8:00 a.m.); and

- utilize other uncustomary methods to collect the receivables that interfere with the privacy or the peace in the workplace of the debtor or his or her related parties.

Regulations on Class Actions Regarding Securities

The Law on Class Actions Regarding Securities was enacted as of January 20, 2004 and last amended on May 28, 2013. The Law on Class Actions Regarding Securities governs class actions suits instituted by one or more representative plaintiff(s) on behalf of 50 or more persons who claim to have been damaged in a capital markets transaction involving securities issued by a listed company in Korea.

Applicable causes of action with respect to such suits include:

- claims for damages caused by misleading information contained in a securities statement;

- claims for damages caused by the filing of a misleading business report, semi-annual report, or quarterly report;

- claims for damages caused by insider trading or market manipulation; and

- claims instituted against auditors for damages caused by accounting irregularities.

Any such class action may be instituted upon approval from the presiding court and the outcome of such class action will have a binding effect on all potential plaintiffs who have not joined the action, with the exception of those who have filed an opt out notice with such court.

Regulations on Financial Investment Business

General

The Financial Investment Services and Capital Markets Act, which became effective in February 2009, regulates and governs the financial investment business in Korea. The entities that regulate and supervise financial investment companies are the Financial Services Commission, the Financial Supervisory Service and the Securities and Futures Commission.

Under the Financial Investment Services and Capital Markets Act, a company must obtain a license from the Financial Services Commission to commence a financial investment business such as a brokerage business, a dealing business or an underwriting business. A bank is permitted to engage in certain types of financial

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investment business as specified under the Enforcement Decree of the Bank Act. Prior to commencing a financial investment business, a bank must file a report with the Financial Services Commission and apply for a license pursuant to the Financial Investment Services and Capital Markets Act.

Consolidation of Capital Markets-Related Laws

Prior to the effectiveness of the Financial Investment Services and Capital Markets Act, different laws regulated different types of financial institutions. By applying a uniform set of rules to the same financial business having the same economic function, the Financial Investment Services and Capital Markets Act aims to address the issues caused by the previous regulatory system under which the same economic function relating to capital markets-related businesses was governed by multiple regulations. The Financial Investment Services and Capital Markets Act categorizes financial investment businesses into six different functions:

- dealing, trading and underwriting of financial investment products (as defined below);
- brokerage of financial investment products;
- establishment of collective investment schemes and the management thereof;
- investment advice;
- discretionary investment management; and
- trusts (together with the five businesses set forth above, the Financial Investment Businesses).

Accordingly, all financial businesses relating to financial investment products have been reclassified as one or more of the financial investment businesses listed above, and financial institutions are subject to the regulations applicable to their relevant financial investment businesses, regardless of the type of the financial institution it may be. For example, under the Financial Investment Services and Capital Markets Act, derivative businesses conducted by former securities companies and future companies will be subject to the same regulations.

Banking and insurance businesses are not subject to the Financial Investment Services and Capital Markets Act and will continue to be regulated under separate laws. However, they may become subject to the Financial Investment Services and Capital Markets Act if their activities involve any financial investment businesses requiring a license pursuant to the Financial Investment Services and Capital Markets Act.

Comprehensive Definition of Financial Investment Products

In an effort to encompass the various types of securities and derivative products available in the capital markets, the Financial Investment Services and Capital Markets Act sets forth a comprehensive term financial investment products, defined to mean all financial products carrying a risk of loss of the invested amount. Financial investment products are classified into two major categories: (i) securities (financial investment products in which the risk of loss is limited to the invested amount) and (ii) derivatives (financial investment products in which the risk of loss may exceed the invested amount). As a result of the general and broad definition of financial investment products, a variety of financial products may be defined as a financial investment product, which would enable Financial Investment Companies (defined below) to handle a broader range of financial products. Under the Financial Investment Services and Capital Markets Act, entities formerly licensed as securities companies, asset management companies, future companies and other entities engaging in any Financial Investment Business are classified as Financial Investment Companies.

New License System and the Conversion of Existing Licenses

Under the Financial Investment Services and Capital Markets Act, Financial Investment Companies are able to choose the type of Financial Investment Business in which to engage (through a check the box method set forth in the relevant license application), by specifying the desired (i) financial investment business, (ii) financial investment product and (iii) target customers to which financial investment products may be sold or distributed (that is, general investors or professional investors). Licenses will be issued under the specific business subcategories described in the foregoing sentence. For example, it would be possible for a Financial Investment Company to obtain a license to engage in the financial investment business of (i) dealing (ii) over the counter derivatives products or (iii) only with sophisticated investors.

Financial institution that engage in business activities constituting a financial investment business are required to take certain steps, such as renewal of their license or registration, in order to continue engaging in such business activities. Financial institutions that are not licensed Financial Investment Companies are not permitted to engage in any Financial Investment Business, subject to the following exceptions: (i) banks and insurance companies are permitted to engage in certain categories of Financial Investment Businesses for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act; and (ii) other financial institutions that engaged in any Financial Investment Business prior to the effective date of the Financial Investment Services and Capital Markets Act (whether in the form of a concurrent business or an incidental business) are permitted to continue such Financial Investment Business for a period not exceeding six months commencing on the effective date of the Financial Investment Services and Capital Markets Act.

Expanded Business Scope of Financial Investment Companies

Under the previous regulatory regime in Korea, it was difficult for a financial institution to explore a new line of business or expand upon its existing line of business. For example, previously a financial institution licensed as a securities company generally was not permitted to engage in the asset management business. In contrast, under the Financial Investment Services and Capital Markets Act, pursuant to the integration of its current businesses involving financial investment products into a single Financial Investment Business, a licensed Financial Investment Company is permitted to engage in all types of Financial Investment Businesses, subject to satisfying relevant regulations (for example, maintaining an adequate Chinese Wall, to the extent required). As to incidental businesses (that is, a financial related business which is not a Financial Investment Business), the Financial Investment Services and Capital Markets Act generally allows a Financial Investment Company to freely engage in such incidental businesses by shifting away from the previous positive-list system towards a more comprehensive system. In addition, a Financial Investment Company is permitted to (i) outsource marketing activities by contracting introducing brokers that are individuals but not employees of the Financial Investment Company, (ii) engage in foreign exchange business related to their Financial Investment Business and (iii) participate in the settlement network, pursuant to an agreement among the settlement network participants.

Improvement in Investor Protection Mechanism

While the Financial Investment Services and Capital Markets Act widens the scope of financial businesses in which financial institutions are permitted to engage, a more rigorous investor-protection mechanism is also imposed upon Financial Investment Companies dealing in financial investment products. The Financial Investment Services and Capital Markets Act distinguishes general investors from sophisticated investors and provides new or enhanced protections to general investors. For instance, the Financial Investment Services and Capital Markets Act expressly provides for a strict know-your-customer rule for general investors and imposes an obligation that Financial Investment Companies should market financial investment products suitable to each general investor, using written explanatory materials. Under the Financial Investment Services and Capital Markets Act, a Financial Investment Company could be liable if a general investor proves (i) damage or losses relating to such general investor s investment in financial investment products solicited by such Financial Investment Company and (ii) absence of the requisite written explanatory materials, without having to prove fault or causation. With respect to any conflicts of interest between Financial Investment Companies and investors, the Financial Investment Services and Capital Markets Act expressly requires (i) disclosure of any conflict of interest to investors and (ii) mitigation of conflicts of interest to a comfortable level or abstention from the relevant transaction.

Other Changes to Securities / Fund Regulations

The Financial Investment Services and Capital Markets Act changed various securities regulations including those relating to public disclosure, insider trading and proxy contests, which were previously governed by the

Korean Securities Exchange Act. For example, the 5% and 10% reporting obligations under the Korean Securities Exchange Act have become more stringent. The Indirect Investment and Asset Management Business Act strictly limited the kind of vehicles that could be utilized under a collective investment scheme, restricting the range of vehicles to trusts and corporations, and the type of funds that can be used for investments. However, under the Financial Investment Services and Capital Markets Act, these restrictions have been significantly liberalized, permitting all vehicles that may be created under Korean law, such as limited liability companies or partnerships, to be used for the purpose of collective investments and investment funds to be more flexible as to their investments.

Item 4C. ***Organizational Structure***

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

We are the direct or indirect parent company of a number of subsidiaries. The following table provides summary information for our subsidiaries (other than structured companies) that are consolidated in our consolidated financial statements as of and for the year ended December 31, 2014:

Subsidiary	Percentage of Ownership	Total Assets	Shareholders Equity (in millions of Won)	Operating Revenue	Net Income
Woori Card Co., Ltd.	100.0%	5,732,039	1,188,859	1,203,131	89,107
Woori Investment Bank Co., Ltd.	59.5%	1,001,542	140,333	84,282	4,536
Woori FIS Co., Ltd.	100.0%	246,580	34,909	289,485	(1,285)
Woori Finance Research Institute Co., Ltd.	100.0%	3,682	3,215	6,619	91
Woori Credit Information, Inc.	100.0%	33,500	27,451	32,412	2,198
Woori Fund Service Co., Ltd.	100.0%	9,070	8,644	4,895	(415)
Woori Private Equity Co., Ltd.	100.0%	80,292	42,850	4,387	2,087
Korea BTL Infrastructure Fund	99.9%	669,818	669,556	35,136	31,750
Woori America Bank	100.0%	1,338,415	167,531	49,945	5,587
Woori Bank (China) Limited	100.0%	3,844,399	446,664	205,273	8,887
Indonesia Woori Saudara Bank	74.0%	1,735,356	345,253	85,851	14,563
ZAO Woori Bank	100.0%	254,716	36,594	12,982	4,418
Woori Brazil Bank	100.0%	164,282	32,963	18,468	1,647
Woori Global Market Asia Limited	100.0%	274,132	109,886	6,319	759
Woori Finance Cambodia	100.0%	11,930	5,214	1,790	266

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Item 4D. ***Property, Plants and Equipment***

Our registered office and corporate headquarters, with a total area of approximately 97,222 square meters, are located at 51, Sogong-ro, Jung-gu, Seoul, Korea. Information regarding certain of our properties in Korea as of December 31, 2014 is presented in the following table:

Type of Facility/Building	Location	Area (square meters)
Woori Bank registered office and corporate headquarters	51, Sogong-ro, Jung-gu, Seoul, Korea 100-792	97,222
Woori FIS registered office and corporate headquarters	17, World Cup buk-ro 60-gil, Mapo-gu, Seoul, Korea 121-921	40,737

As of December 31, 2014, we had a network of 993 banking branches in Korea, approximately 258 of which are housed in buildings owned by us, while the remaining branches are leased properties. Lease terms are generally from two to three years and seldom exceed five years. We also have subsidiaries in the United States, China, Hong Kong, Russia, Indonesia, Cambodia and Brazil and branches, agencies and representative offices in Asia, the United States and Europe. We do not own any material properties outside of Korea.

The net book value of all the properties owned by us as of December 31, 2014 was 2,501 billion.

Item 4.A. **UNRESOLVED STAFF COMMENTS**

We do not have any unresolved comments from the U.S. Securities and Exchange Commission staff regarding our periodic reports under the Exchange Act.

Item 5. **OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

Item 5A. ***Operating Results***

Overview

The following discussion is based on our consolidated financial statements, which have been prepared in accordance with IFRS as issued by the IASB. The consolidated financial statements include the accounts of subsidiaries over which substantive control is exercised through either majority ownership of voting stock and/or other means. Investments in joint ventures and associates (companies over which we have the ability to exercise significant influence) are accounted for by the equity method of accounting and are reported in investments in joint ventures and associates.

Trends in the Korean Economy

Our financial position and results of operations have been and will continue to be significantly affected by financial and economic conditions in Korea. Substantial growth in lending in Korea to small- and medium-sized enterprises in recent years, and financial difficulties experienced by such enterprises as a result of, among other things, adverse economic conditions in Korea and globally, have generally led to increasing delinquencies and a deterioration in overall asset quality in the credit exposures of Korean banks to small- and medium-sized enterprises. In 2014, we recorded charge-offs of 319 billion in respect of our Won-denominated loans to small-and medium-sized enterprises, compared to charge-offs of 517 billion in 2013 (in each case excluding discontinued operations). In light of the difficult financial condition and liquidity position of small- and medium-sized enterprises in Korea since the second half of 2008, the Korean government introduced measures intended to encourage Korean banks to provide financial support to small- and medium-sized enterprise borrowers. See Item 3D. Risk Factors Risks relating to our corporate credit portfolio The largest portion of our exposure is to small- and medium-sized enterprises, and financial difficulties experienced by companies in this segment may result in a deterioration of our asset quality and have an adverse impact on us.

In recent years, commercial banks, consumer finance companies and other financial institutions in Korea have also made significant investments and engaged in aggressive marketing in consumer lending (including mortgage and home equity loans), leading to substantially increased competition in this segment. The rapid

growth in consumer loans, together with adverse economic conditions in Korea, have generally led to increasing delinquencies and a deterioration in asset quality. In 2014, we recorded charge-offs of 115 billion and provisions for credit losses of 150 billion in respect of our consumer loan portfolio (in each case excluding discontinued operations), compared to charge-offs of 180 billion and provisions for credit losses of 238 billion in 2013 (in each case including discontinued operations). See Item 3D. Risk Factors Risks relating to our consumer credit portfolio.

The Korean economy is closely tied to, and is affected by developments in, the global economy. 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 2015 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 southern Europe and Latin America;
- the slowdown of economic growth in China and other major emerging market economies; and
- political and social instability in various countries in the Middle East and Northern Africa, including Iraq, Syria and Yemen, as well as in Ukraine and Russia.

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.

As a result of volatile conditions and weakness in the Korean and global economies, as well as factors such as the uncertainty surrounding the global financial markets, fluctuations in oil and commodity prices, interest and exchange rate fluctuations, higher unemployment, lower consumer confidence, potential tightening of fiscal and monetary policies and continued tensions with North Korea, the economic outlook for the financial services sector in Korea in 2015 and for the foreseeable future remains uncertain.

Privatization Plan

The Korean government, which currently owns 51.04% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. Pursuant to such plan, in May 2014, Woori Finance Holdings established KJB Financial Group and KNB Financial Group through a spin-off of its 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 became the owner of the shares of Kwangju Bank previously held by Woori Finance Holdings, and KNB Financial Group became the owner of the shares of Kyongnam Bank previously held by Woori Finance Holdings. Woori Finance Holdings no longer owned any shares of Kwangju Bank or Kyongnam Bank, and neither they nor their new holding companies were its subsidiaries, after the spin-off. Following such spin-off, each of these banks was merged with its holding company, and in October 2014, the KDIC sold its 56.97% ownership interest in Kwangju Bank and Kyongnam Bank to JB Financial Group and BS Financial Group, respectively. In addition, in March 2014, Woori Finance Holdings sold its 52.0% ownership interest in Woori Financial to KB Financial Group. In May 2014, Woori Finance Holdings also sold its 100.0% ownership interest in Woori Asset Management to Kiwoom Securities and sold its 100.0% ownership interest in Woori F&I to Daishin Securities. In June 2014, Woori Finance Holdings sold its 37.9% ownership interest in Woori Investment & Securities, its 51.6% ownership interest in Woori Aviva Life Insurance and its 100.0% ownership interest in Woori FG Savings Bank to NongHyup Financial Group in a collective sale. As a result of such sales, Woori Investment & Securities, Woori Asset Management, Woori Aviva Life Insurance, Woori FG Savings Bank, Woori F&I and Woori Financial were no longer subsidiaries of Woori Finance Holdings, and it no longer owned any shares in such former subsidiaries. See Item 4A. History and Development of the Company Privatization Plan.

In light of such dispositions during 2014, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I were classified as a disposal group held for distribution or sale, and their operations were accounted for as discontinued operations, in our consolidated statements of financial position and comprehensive income as of and for the year ended December 31, 2013, as well as in our consolidated statement of comprehensive income for the year ended December 31, 2014, included in this annual report. Similarly, our consolidated statement of comprehensive income for the year ended December 31, 2012 included in this annual report was restated to account for such entities as discontinued operations. However, our consolidated statement of financial position as of December 31, 2012 included in this annual report was not so restated. Accordingly, in general, our financial information as of December 31, 2013 and 2014 and for the years ended December 31, 2012, 2013 and 2014 appearing below does not include financial data with respect to such discontinued operations, while our financial information as of December 31, 2012 appearing below includes financial data with respect to such discontinued operations. As a result, our financial information as of December 31, 2012 may not be directly comparable to our financial information as of and for other dates and periods. For further information regarding such discontinued operations, see Notes 46 and 47 of the notes to our consolidated financial statements included elsewhere in this annual report.

Merger with Woori Finance Holdings

Prior to November 1, 2014, we were a wholly-owned subsidiary of Woori Finance Holdings. Pursuant to the Korean government s privatization plan, on November 1, 2014, Woori Finance Holdings merged with and into us, such that we remained as the surviving entity, and Woori Finance Holdings ceased to exist, after the merger. In connection with the merger, shareholders of Woori Finance Holdings recorded in its shareholder register as of November 1, 2014 received one share of our common stock for each share of common stock of Woori Finance Holdings they held.

As a result of the merger, the other former subsidiaries of Woori Finance Holdings, including Woori Card, Woori Private Equity, Woori FIS, Woori Investment Bank and Woori Finance Research Institute, became our subsidiaries. Accordingly, our overall business and operations after the merger, on a consolidated basis, are substantially identical to those of Woori Finance Holdings on a consolidated basis prior to the merger. See Item 4A. History and Development of the Company Privatization Plan Merger with Woori Finance Holdings.

The merger qualified as business combination under common control for accounting purposes. Accordingly, we recognized the transferred assets and liabilities of Woori Finance Holdings at their book value and did not recognize any goodwill in connection with the merger. The financial information appearing below, as of dates and for periods prior to the date of the merger, is for Woori Finance Holdings and its subsidiaries (including us) and, as of dates and for periods from and after the date of the merger, is for us and our subsidiaries. See Note 50 of the notes to our consolidated financial statements included elsewhere in this annual report.

Changes in Securities Values, Exchange Rates and Interest Rates

Fluctuations of exchange rates, interest rates and stock prices affect, among other things, the demand for our products and services, the value of and rate of return on our assets, the availability and cost of funding and the financial condition of our customers. The following table shows, for the dates indicated, the stock price index of all equities listed on the KRX KOSPI Market as published in the KOSPI, the Won to U.S. dollar exchange rates and benchmark Won borrowing interest rates.

	June 30, 2010	Dec. 31, 2010	June 30, 2011	Dec. 31, 2011	June 30, 2012	Dec. 31, 2012	June 30, 2013	Dec. 31, 2013	June 30, 2014	Dec. 31, 2014
KOSPI	1,698.29	2,051.0	2,100.69	1,825.12	1,854.01	1,997.05	1,863.32	2,011.34	2,002.21	1,915.59
/US$ exchange rates[1]	1,273.5	1,163.7	1,066.3	1,158.5	1,141.17	1,063.24	1,141.45	1,055.25	1,011.60	1,090.89
Corporate bond rates[2]	5.0%	4.3%	4.5%	4.2%	3.9%	3.4%	3.5%	3.6%	3.4%	2.8%
Treasury bond rates[3]	3.9%	3.4%	3.8%	3.3%	3.3%	2.8%	2.9%	2.8%	2.6%	2.1%

(1) Represents the noon buying rate on the dates indicated.

(2) Measured by the yield on three-year Korean corporate bonds rated as A+ by the Korean credit rating agencies.

(3) Measured by the yield on three-year treasury bonds issued by the Ministry of Strategy and Finance of Korea.

Critical Accounting Policies

The notes to our consolidated financial statements contain a summary of our significant accounting policies, including a discussion of recently issued accounting pronouncements. Certain of these policies are critical to the portrayal of our financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. We discuss these critical accounting policies below.

Impairment of Loans and Allowance for Credit Losses

We evaluate our loans and receivables portfolio for impairment on an ongoing basis. We have established an allowance for credit losses, which is available to absorb probable losses that have been incurred in our loans and receivables portfolio as of the date of the statement of financial position. If we believe that additions or changes to the allowance for credit losses are required, we record provisions for credit losses (as part of our impairment loss for credit loss), which are treated as charges against current income. Loan exposures that we deem to be uncollectible, including actual loan losses, net of recoveries of previously written-off amounts, are charged directly against the allowance for credit losses.

Our accounting policies for losses arising from the impairment of loans and receivables and our allowance for credit loss are described in Notes 2-(9)-6) and 3-(4) of the notes to our consolidated financial statements. We base the level of our allowance for credit losses on an evaluation of the risk characteristics of our loan portfolio. The evaluation considers factors such as historical loss experience, the financial condition of our borrowers and current economic conditions.

Our allowance for credit losses represents our management s best estimate of losses incurred in the loans and receivables portfolio as of the date of the statement of financial position. Our management is required to exercise judgment in making assumptions and estimates when calculating the allowance for credit losses on both individually and collectively assessed loans and advances.

The determination of the allowance required for loans and receivables that are deemed to be individually significant often requires the use of considerable management judgment concerning such matters as economic conditions, the financial performance of the counterparty and the value of any collateral held for which there may not be a readily accessible market. Once we have identified loans and receivables as impaired, we generally value them based on the present value of expected future cash flows discounted at the original effective interest rate of the applicable loan or receivable and compare such present value against the carrying amount of such loan or receivable, which amount is subject to various estimates by our management such as the operating cash flow of the borrower, net realizable value of any collateral held and the timing of anticipated receipts. The actual amount of the future cash flows and their timing may differ from the estimates used by our management and consequently may cause actual losses to differ from the reported allowances.

The allowance for portfolios of smaller-balance homogenous loans and receivables, such as those to individuals and small business customers, and for those loans which are individually significant but for which no objective evidence of impairment exists, is determined on a collective basis. The collective allowance is calculated on a portfolio basis using statistical methodology based on our historical loss experience, which incorporates numerous estimates and judgments. We perform a regular review of the models and underlying data and assumptions.

Our consolidated financial statements for the year ended December 31, 2014 included a total allowance for credit losses of 2,954 billion as of that date. We recorded provisions for credit losses of 1,116 billion (excluding discontinued operations) in 2014.

We believe that the accounting estimates related to impairment of loans and receivables and our allowance for credit losses are a critical accounting policy because: (1) they are highly susceptible to change from period to period because they require us to make assumptions about future default rates and losses relating to our loan portfolio; and (2) any significant difference between our estimated losses on loans and receivables (as reflected in our allowance for credit losses) and actual losses on loans and receivables could require us to record additional provisions for credit losses which, if significant, could have a material impact on our profit. Our assumptions about estimated losses require significant judgment because actual losses have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Valuation of Financial Assets and Liabilities

Our accounting policy for determining the fair value of financial assets and liabilities is described in Notes 2-(9)-5), 3-(3) and 11 of the notes to our consolidated financial statements.

The best evidence of fair value is a quoted price in an actively traded market. In the event that the market for a financial asset or liability is not active, a valuation technique is used. The majority of valuation techniques employ only observable market data and, as such, the reliability of the fair value measurement is high. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable. Valuation techniques that rely to a greater extent on unobservable inputs require a higher level of management judgment to calculate a fair value than those based wholly on observable inputs.

Valuation techniques used to calculate fair values are discussed in Notes 2-(9)-5) and 11 of the notes to our consolidated financial statements. The main assumptions and estimates which our management considers when applying a model with valuation techniques are:

- The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although judgment may be required when the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt. Future cash flows may be sensitive to changes in market rates.

- Selecting an appropriate discount rate for the instrument. The determination of this rate is based on an assessment of what a market participant would regard as the appropriate spread of the rate for the instrument over the appropriate risk-free rate.

- Judgment to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective (for example, valuation of complex derivative products).

The financial instruments carried at fair value have been categorized under the three levels of the IFRS fair value hierarchy as follows:

- Level 1: Quoted prices in active markets for identical assets or liabilities.

- Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Fair value is a market-based measure considered from the perspective of a market participant. As such, even when market assumptions are not readily available, our own assumptions are intended to reflect those that market participants would use in pricing the asset or liability at the measurement date.

Our consolidated financial statements for the year ended December 31, 2014 included financial assets measured at fair value using a valuation technique of 19,247 billion, representing 81.7% of total financial assets measured at fair value, and financial liabilities measured at fair value using a valuation technique of 2,656 billion, representing 99.3% of total financial liabilities measured at fair value. As used herein, the fair value using a valuation technique means the fair value at Level 2 and Level 3 in the fair value hierarchy.

We believe that the accounting estimates related to the determination of the fair value of financial instruments are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on factors beyond our control; and (2) any significant difference between our estimate of the fair value of these financial instruments on any particular date and either their estimated fair value on a different date or the actual proceeds that we receive upon sale of these financial instruments could result in valuation losses or losses on disposal which may have a material impact on our profit. Our assumptions about the fair value of financial instruments we hold require significant judgment because actual valuations have fluctuated in the past and are expected to continue to do so, based on a variety of factors.

Deferred Tax Assets

Our accounting policy for the recognition of deferred tax assets is described in Notes 2-(23) and 3-(2) of the notes to our consolidated financial statements.

The recognition of deferred tax assets relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences and ongoing tax planning strategies.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, unused tax losses and unused tax credits. Deferred tax assets are recognized only to the extent it is probable that sufficient taxable profit will be available against which those deductible temporary differences, unused tax losses or unused tax credits can be utilized. This assessment requires significant management judgment and assumptions. In determining the amount of deferred tax assets, we use forecasted operating results, which are based on historical financial performance, approved business plans, including a review of the eligible carry-forward periods, available tax planning opportunities and other relevant considerations.

Our consolidated financial statements for the year ended December 31, 2014 included deferred tax assets and liabilities of 258 billion and 22 billion, respectively, as of that date.

We believe that the estimates related to our recognition and measurement of deferred tax assets are a critical accounting policy because: (1) they may be highly susceptible to change from period to period based on our assumptions regarding our future profitability; and (2) any significant difference between our estimates of future profits on any particular date and estimates of such future profits on a different date could result in an income tax expense or benefit which may have a material impact on our net income from period to period. Our assumptions about our future profitability require significant judgment and are inherently subjective.

Goodwill

Our accounting policy for goodwill is described in Notes 2-(13), 3-(1) and 16 of the notes to our consolidated financial statements.

Goodwill is recognized as the excess of (i) the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree over (ii) the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed. If the net amount of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed exceeds the sum of the consideration transferred and the amount of any non-controlling interest in the acquiree, such excess is recognized as a gain as of the acquisition date.

Goodwill is not depreciated and is stated at cost less accumulated impairment losses. However, goodwill that forms part of the carrying amount of an investment in an associate or a joint venture is not separately recognized and an impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate or the joint venture.

The review of goodwill impairment reflects our management s best estimate of the certain factors. For example:

- The future cash flows of the cash generating units, or CGUs, are sensitive to the cash flows projected for the periods for which detailed forecasts are available and to assumptions regarding the long-term pattern of sustainable cash flows thereafter. Forecasts are compared with actual performance and verifiable economic data, but they necessarily and appropriately reflect our management s view of future business prospects at the time of the assessment.

- The rates used to discount future expected cash flows are based on the costs of capital assigned to individual CGUs and can have a significant effect on their valuation. The cost of capital percentage is generally derived from a Capital Asset Pricing Model, which incorporates inputs reflecting a number of financial and economic variables, including the risk-free interest rate in the country concerned and a premium for the inherent risk of the business being evaluated. These variables are subject to fluctuations in external market rates and economic conditions beyond our control and therefore require the exercise of significant judgment and are consequently subject to uncertainty.

A decline in a CGU s expected cash flows or an increase in its cost of capital reduces the CGU s estimated recoverable amount. If this is lower than the carrying value of the CGU, a charge for impairment of goodwill is recognized in the statement of comprehensive income for the year.

The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions. In such market conditions, our management retests goodwill for impairment more frequently than once a year to ensure that the assumptions on which the cash flow forecasts are based continue to reflect current market conditions and management s best estimate of future business prospects.

Our consolidated financial statements for the year ended December 31, 2014 included the value of goodwill of 108 billion as of that date, including the value of goodwill of 106 billion relating to our acquisition of an equity interest in PT. Bank Himpunan Saudara 1906. See Item 4B. Business Overview Capital Markets Activities International Banking.

We believe that the accounting estimates related to the fair values of our acquired goodwill are a critical accounting policy because: (1) they may be highly susceptible to change from period to period since they require assumptions about future cash flows, run-off rates and profitability; and (2) any significant changes in our estimates from period to period could result in the recognition of impairment losses which may have a material impact on our net income. Our assumptions about estimated future cash flows, run-off rates and profitability require significant judgment and the fair values of the goodwill could fluctuate in the future, based on a variety of factors.

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Results of Operations

Unless otherwise indicated, the amounts set forth below exclude the results of operations of certain former subsidiaries classified as discontinued operations. See Overview Privatization Plan.

Net Interest Income

The following table shows, for the periods indicated, the principal components of our interest income:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Interest income					
Due from banks	109	120	104	10.1%	(13.3)%
Loans	9,363	8,350	8,184	(10.8)	(2.0)
Financial assets at fair value through profit or loss	326	109	71	(66.6)	(34.9)
Investment financial assets(1)	1,013	860	802	(15.1)	(6.7)
Other assets	80	54	50	(32.5)	(7.4)
Total interest income	10,891	9,493	9,211	(12.8)	(3.0)
Interest expense					
Deposits	4,506	3,650	3,451	(19.0)	(5.5)
Borrowings	315	254	252	(19.4)	(0.8)
Debentures	1,112	961	885	(13.6)	(7.9)
Others	110	136	130	23.6	(4.4)
Total interest expense	6,043	5,001	4,718	(17.2)	(5.7)
Net interest income	4,848	4,492	4,493	(7.3)%	0.0%
Net interest margin(2)	2.07%	1.94%	1.82%		

(1) Includes available-for-sale financial assets and held-to-maturity financial assets.
(2) The ratio of net interest income to average interest-earning assets.

Comparison of 2014 to 2013

Interest income. Interest income decreased 3.0% from 9,493 billion in 2013 to 9,211 billion in 2014, primarily as a result of a 2.0% decrease in interest on loans, which was enhanced by a 6.7% decrease in interest on investment financial assets. The average balance of our interest-earning assets increased 6.7% from 231,529 billion in 2013 to 247,145 in 2014, principally due to the growth of our loan portfolio. The effect of this increase was more than offset by a 37 basis point decrease in the average yield on our interest-earning assets from 4.10% in 2013 to 3.73% in 2014, which reflected a decrease in the general level of interest rates in Korea in 2014 compared to 2013.

The 2.0% decrease in interest on loans from 8,350 billion in 2013 to 8,184 billion in 2014 was primarily due to:

- a 43 basis point decrease in the average yield on general purpose household loans (including home equity loans) from 4.58% in 2013 to 4.15% in 2014, which was enhanced by a 1.8% decrease in the average volume of such loans from 58,770 billion in 2013 to 57,720 billion in 2014;

a 42 basis point decrease in the average yield on commercial and industrial loans from 4.90% in 2013 to 4.48% in 2014, which was partially offset by a 7.4% increase in the average volume of such loans from 82,875 billion in 2013 to 89,030 billion in 2014; and

a 39 basis point decrease in the average yield on other commercial loans from 3.66% in 2013 to 3.27% in 2014, which was enhanced by a 6.1% decrease in the average volume of such loans from 9,584 billion in 2013 to 8,997 billion in 2014.

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The effect of the above decreases was partially offset by a 50.0% increase in the average volume of mortgage loans from 15,979 billion in 2013 to 23,970 billion in 2014, which in turn was partially offset by a 46 basis point decrease in the average yield on such loans from 4.29% in 2013 to 3.83% in 2014.

The average yields on general purpose household loans (including home equity loans), commercial and industrial loan, other commercial loans and mortgage loans decreased mainly due to the decrease in the general level of interest rates in Korea in 2014. The decrease in the average volume of general purpose household loans (including home equity loans) mainly reflected decreased demand for such loans among consumers in light of the continuing uncertainty in the Korean economy. The increase in the average volume of commercial and industrial loans was primarily due to increased demand from corporate borrowers as well as our marketing efforts to increase our corporate lending. The decrease in the average volume of other commercial loans primarily reflected the decrease in the average volume of commercial paper held by Woori Bank China Limited. The increase in the average volume of mortgage loans (including home equity loans) mainly reflected increased demand for such loans from customers, mainly as a result of the decrease in the general level of interest rates in Korea in 2014.

Overall, the average volume of our loans increased 7.1% from 183,791 billion in 2013 to 196,766 billion in 2014, and the average yield on our loans decreased 38 basis points, from 4.54% in 2013 to 4.16% in 2014.

Our financial assets portfolio consists primarily of investment financial assets, of which a majority was debt securities issued by government-owned or -controlled enterprises or financial institutions (including the Bank of Korea, the Korea Development Bank and the KDIC), as well as financial assets at fair value through profit or loss.

The 6.7% decrease in interest on investment financial assets from 860 billion in 2013 to 802 billion in 2014 was primarily due to a 40 basis point decrease in the average yield on such assets from 3.26% in 2013 to 2.86% in 2014, which was partially offset by a 6.6% increase in the average balance of such assets from 26,349 billion in 2013 to 28,076 billion in 2014. The decrease in the average yield on investment financial assets resulted mainly from the decrease in the general level of interest rates in Korea in 2014. The increase in the average balance of investment financial assets principally reflected an increase in the volume of corporate bonds that we held as investment financial assets.

Interest on financial assets at fair value through profit or loss decreased 34.9% from 109 billion in 2013 to 71 billion in 2014, primarily due to a 29.7% decrease in the average balance of such assets from 3,753 billion in 2013 to 2,639 billion in 2014, which was enhanced by a 21 basis point decrease in the average yield on such assets from 2.90% in 2013 to 2.69% in 2014. The decrease in the volume of financial assets at fair value through profit or loss mainly reflected a decrease in the volume of debt securities issued by corporations and financial institutions that we held as financial assets at fair value through profit or loss. The decrease in the average yield on financial assets at fair value through profit or loss was primarily due to an a decrease in the general level of interest rates in Korea in 2014.

For further information regarding our interest income, see Note 34-(1) of the notes to our consolidated financial statements included elsewhere in this annual report.

Interest expense. Interest expense decreased 5.7% from 5,001 billion in 2013 to 4,718 billion in 2014, primarily due to a 5.5% decrease in interest expense on deposits as well as a 7.9% decrease in interest expense on debentures. The average balance of interest-bearing liabilities increased 6.2% from 220,635 billion in 2013 to 234,412 billion in 2014, principally due to increases in the average balances of deposits and debentures. The effect of these increases was more than offset by a decrease of 26 basis points in the average cost of interest-bearing liabilities from 2.27% in 2013 to 2.01% in 2014, which was driven mainly by a decrease in the average cost of deposits.

The 5.5% decrease in interest expense on deposits from 3,650 billion in 2013 to 3,451 billion in 2014 resulted mainly from a 5.3% decrease in interest expense on time and savings deposits from 3,369 billion in 2013 to 3,190 billion in 2014.

The decrease in interest expense on time and savings deposits was mainly due to a 32 basis point decrease in the average cost of such deposits from 2.39% in 2013 to 2.07% in 2014, which was partially offset by a 9.1% increase in the average balance of such deposits from 140,981 billion in 2013 to 153,789 billion in 2014.

The decrease in the average cost of time and savings deposits was primarily attributable to the decrease in the general level of interest rates in Korea in 2014, while the increase in the average volume of such deposits mainly reflected customers continuing preference for low-risk products and institutions in Korea in light of the continuing uncertainty in financial markets in 2014.

Overall, the average volume of our deposits increased 7.5% from 166,937 billion in 2013 to 179,471 billion in 2014, while the average cost of our deposits decreased by 27 basis points from 2.19% in 2013 to 1.92% in 2014.

The 7.9% decrease in interest expense on debentures from 961 billion in 2013 to 885 billion in 2014 was primarily due to a 56 basis point decrease in the average cost of debentures from 4.37% in 2013 to 3.81% in 2014, mainly caused by the lower interest rate environment in Korea in 2014. Such decrease was partially offset by a 5.6% increase in the average balance of debentures from 21,994 billion in 2013 to 23,218 billion in 2014, mainly caused by our increased use of debentures to meet our funding needs.

Net interest margin. Net interest margin represents the ratio of net interest income to average interest-earning assets. Our overall net interest margin decreased from 1.94% in 2013 to 1.82% in 2014, as our net interest income remained stable at 4,493 billion in 2014 compared to 4,492 billion in 2013, while the average balance of our interest-earning assets increased 6.7% from 231,529 billion in 2013 to 247,145 billion in 2014. The growth in average interest-earning assets outpaced a 6.2% increase in average interest-bearing liabilities from 220,635 billion in 2013 to 234,412 billion in 2014, while the decrease in interest income was offset by the decrease in interest expense, resulting in stable net interest income. The decrease in net interest margin was driven mainly by a decrease in our net interest spread, which represents the difference between the average yield on our interest-earning assets and the average cost of our interest-bearing liabilities, from 1.83% in 2013 to 1.72% in 2014. The decrease in our net interest spread reflected a larger decrease in the average yield on our interest-earning assets compared to the decrease in the average cost of our interest-bearing liabilities from 2013 to 2014, primarily due to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of the lower interest rate environment in Korea in 2014.

Comparison of 2013 to 2012

Interest income. Interest income decreased 12.8% from 10,891 billion in 2012 to 9,493 billion in 2013, primarily as a result of a 10.8% decrease in interest on loans, which was enhanced by a 66.6% decrease in interest on financial assets at fair value through profit or loss. The average balance of our interest-earning assets decreased 1.3% from 234,656 billion in 2012 to 231,529 in 2013, principally due to a decrease in the average balance of our financial assets at fair value through profit and loss. The effect of this decrease was enhanced by a 54 basis point decrease in the average yield on our interest-earning assets from 4.64% in 2012 to 4.10% in 2013, which reflected a decrease in the general level of interest rates in Korea in 2013 compared to 2012.

The 10.8% decrease in interest on loans from 9,363 billion in 2012 to 8,350 billion in 2013 was primarily due to:

- an 80 basis point decrease in the average yield on commercial and industrial loans from 5.70% in 2012 to 4.90% in 2013, which was partially offset by a 3.1% increase in the average volume of such loans from 80,377 billion in 2012 to 82,875 billion in 2013; and

- a 68 basis point decrease in the average yield on general purpose household loans (including home equity loans) from 5.26% in 2012 to 4.58% in 2013, which was enhanced by a 3.4% decrease in the average volume of such loans from 60,840 billion in 2012 to 58,770 billion in 2013.

The effect of the above decreases was partially offset by a 55.2% increase in the average volume of mortgage loans from 10,296 billion in 2012 to 15,979 billion in 2013, which in turn was partially offset by a 76 basis point decrease in the average yield on such loans from 5.05% in 2012 to 4.29% in 2013.

The average yields on commercial and industrial loans, general purpose household loans (including home equity loans) and mortgage loans decreased mainly due to the decrease in the general level of interest rates in Korea in 2013. The increase in the average volume of commercial and industrial loans was primarily due to an increase in demand for working capital loans, reflecting increased demand from large corporate borrowers. The decrease in the average volume of general purpose household loans (including home equity loans) mainly reflected decreased demand for such loans among consumers in light of the continuing uncertainty in the Korean economy. The increase in the average volume of mortgage loans primarily reflected increased general demand for such loans from customers, including to finance home rentals in light of a continuing increase in rent levels (particularly key money deposit levels under the *jeonsae* system) in the Korean housing market in 2013, as well as a temporary increase in demand for such loans in the first half of 2013 in connection with the scheduled expiration of a temporary tax exemption on housing purchases in June 2013.

Overall, the average volume of our loans increased 2.2% from 179,788 billion in 2012 to 183,791 billion in 2013, and the average yield on our loans decreased 67 basis points, from 5.21% in 2012 to 4.54% in 2013.

The 66.6% decrease in interest on financial assets at fair value through profit or loss from 326 billion in 2012 to 109 billion in 2013 resulted mainly from a 59.3% decrease in the average balance of such assets from 9,221 billion in 2012 to 3,753 billion in 2013, which was enhanced by a 64 basis point decrease in the average yield on such assets from 3.54% in 2012 to 2.90% in 2013. The decrease in the volume of financial assets at fair value through profit or loss mainly reflected a decrease in the volume of debt securities issued by corporations and financial institutions that we held as financial assets at fair value through profit or loss. The decrease in the average yield on financial assets at fair value through profit or loss was primarily due to an increase in the relative proportion of Korean government-issued debt securities we held as financial assets at fair value through profit or loss, which typically offer lower yields compared to other types of such financial assets held by us.

Interest on investment financial assets decreased 15.1% from 1,013 billion in 2012 to 860 billion in 2013, primarily due to a 50 basis point decrease in the average yield on such assets from 3.76% in 2012 to 3.26% in 2013, which was enhanced by a 2.3% decrease in the average balance of such assets from 26,973 billion in 2012 to 26,349 billion in 2013. The decrease in the average yield on investment financial assets resulted mainly from a decrease in the relative proportion of corporate bonds we held as investment financial assets, which typically offer higher yields compared to other types of such assets held by us. The decrease in the average balance of investment financial assets principally reflected a decrease in the volume of corporate bonds that we held as investment financial assets.

For further information regarding our interest income, see Note 34-(1) of the notes to our consolidated financial statements included elsewhere in this annual report.

Interest expense. Interest expense decreased 17.2% from 6,043 billion in 2012 to 5,001 billion in 2013, primarily due to a 19.0% decrease in interest expense on deposits as well as a 13.6% decrease in interest expense on debentures. The average balance of interest-bearing liabilities decreased 1.6% from 224,115 billion in 2012 to 220,635 billion in 2013, principally due to decreases in the average balances of deposits and borrowings. The effect of this decrease was enhanced by a decrease of 43 basis points in the average cost of interest-bearing liabilities from 2.70% in 2012 to 2.27% in 2013, which was driven mainly by a decrease in the average cost of deposits.

The 19.0% decrease in interest expense on deposits from 4,506 billion in 2012 to 3,650 billion in 2013 resulted mainly from an 18.2% decrease in interest expense on time and savings deposits from 4,119 billion in 2012 to 3,369 billion in 2013 and a 47.0% decrease in interest expense on other deposits from 336 billion in 2012 to 178 billion in 2013.

The decrease in interest expense on time and savings deposits was mainly due to a 58 basis point decrease in the average cost of such deposits from 2.97% in 2012 to 2.39% in 2013, which was partially offset by a 1.7% increase in the average balance of such deposits from 138,660 billion in 2012 to 140,981 billion in 2013. The decrease in the average cost of time and savings deposits was primarily attributable to the decrease in the general level of interest rates in Korea in 2013, while the increase in the average volume of such deposits mainly reflected customers continuing preference for low-risk products and institutions in Korea in light of the continuing uncertainty in financial markets in 2013.

The decrease in interest expense on other deposits was primarily the result of a 21.4% decrease in the average balance of such deposits from 18,131 billion in 2012 to 14,243 billion in 2013, principally due to decreases in deposits relating to notes payable and cash management accounts, which mainly reflected the discontinuation of the former deposit-taking operations of our merchant banking unit in 2013 due to the expiration of the relevant license. Such decrease was enhanced by a 60 basis point decrease in the average cost of such deposits from 1.85% in 2012 to 1.25% in 2013, mainly as a result of the lower interest rate environment in Korea in 2013.

Overall, the average volume of our deposits remained relatively stable at 167,126 billion in 2012 compared to 166,937 billion in 2013, while the average cost of our deposits decreased by 51 basis points from 2.70% in 2012 to 2.19% in 2013.

The 13.6% decrease in interest expense on debentures from 1,112 billion in 2012 to 961 billion in 2013 was primarily due to a 52 basis point decrease in the average cost of debentures from 4.89% in 2012 to 4.37% in 2013, mainly caused by the lower interest rate environment in Korea in 2013. Such decrease was enhanced by a 3.2% decrease in the average balance of debentures from 22,721 billion in 2012 to 21,994 billion in 2013, mainly caused by a decrease in debentures in local currency due to the maturity in 2013 of a large amount of such debentures previously issued by us.

Interest expense on borrowings decreased 19.4% from 315 billion in 2012 to 254 billion in 2013, primarily due to a 12.1% decrease in the average balance of borrowings from 17,830 billion in 2012 to 15,678 billion in 2013, which principally reflected a decrease in borrowings in foreign currencies and call money in Won due mainly to our reduced reliance on such borrowings for our funding needs. Such decrease was enhanced by a 15 basis point decrease in the average cost of borrowings from 1.77% in 2012 to 1.62% in 2013, which was primarily due to the decrease in the general level of interest rates in Korea in 2013.

Net interest margin. Our overall net interest margin decreased from 2.07% in 2012 to 1.94% in 2013, as our net interest income decreased 7.3% to 4,492 billion in 2013 compared to 4,848 billion in 2012, while the average balance of our interest-earning assets decreased 1.3% from 234,656 billion in 2012 to 231,529 billion in 2013. Although the decline in average interest-earning assets was outpaced by a 1.6% decline in average interest-bearing liabilities from 224,115 billion in 2012 to 220,635 billion in 2013, the decrease in interest income was only partially offset by the decrease in interest expense, resulting in a decrease in net interest income. The decrease in net interest margin was driven mainly by a decrease in our net interest spread from 1.94% in 2012 to 1.83% in 2013. The decrease in our net interest spread reflected a larger decrease in the average yield on our interest-earning assets compared to the decrease in the average cost of our interest-bearing liabilities from 2012 to 2013, primarily due to the earlier adjustment of interest rates on interest-earning assets compared to interest rates on interest-bearing liabilities in the context of the lower interest rate environment in Korea in 2013.

Impairment Losses on Credit Loss

Impairment losses on credit loss include provisions for credit losses, provisions for guarantees and provisions for unused commitments, in each case net of reversal of provisions.

Comparison of 2014 to 2013

Our impairment losses on credit loss decreased by 51.8% from 2,277 billion in 2013 to 1,097 billion in 2014, primarily due to a 49.2% decrease in provisions for credit losses, net of reversal of allowance for credit losses, from 2,199 billion in 2013 to 1,116 billion in 2014. Such decrease was mainly attributable to an overall improvement in the asset quality of our corporate loan portfolio, reflecting a decrease in delinquency rates.

Our net provisions for guarantees decreased by 84.9% from 93 billion in 2013 to 14 billion in 2014, due primarily to a decrease in the demand for refund guarantees from our shipbuilding customers.

Comparison of 2013 to 2012

Our impairment losses on credit loss increased by 26.6% from 1,799 billion in 2012 to 2,277 billion in 2013, primarily due to a 21.7% increase in provisions for credit losses, net of reversal of allowance for credit losses, from 1,807 billion in 2012 to 2,199 billion in 2013. Such increase was mainly attributable to an overall deterioration in the asset quality of our corporate loan portfolio, reflecting continuing adverse economic conditions in Korea in 2013.

Our net provisions for guarantees changed from a net reversal of provisions of 31 billion in 2012 to net provisions of 93 billion in 2013, due primarily to an increase in the demand for guarantees from our corporate customers.

Allowance for Credit Losses

For information on our allowance for credit losses, see Critical Accounting Policies Impairment of Loans and Allowance for Credit Losses and Item 4B. Business Overview Assets and Liabilities Loan Portfolio Allocation and Analysis of Allowances for Credit Losses.

Corporate Loans.

The following table shows, for the periods indicated, certain information regarding our impaired corporate loans (including government loans and bank loans):

	As of December 31,		
	2012[(1)]	**2013[(2)]**	**2014[(2)]**
Impaired corporate loans as a percentage of total corporate loans	4.5%	4.1%	3.2%
Allowance for credit losses for corporate loans as a percentage of total corporate loans	2.4	2.5	1.8
Allowance for credit losses for corporate loans as a percentage of impaired corporate loans	53.6	59.8	55.9
Net charge-offs as a percentage of total corporate loans	1.3	1.1	0.9

(1) The amounts for 2012 include only Woori Bank (including its former credit card operations) and Woori Investment Bank, which accounted for a substantial majority of our continuing operations.

(2) The amounts for 2013 and 2014 include only continuing operations.

During 2014, impaired corporate loans, allowance for credit losses for corporate loans and net charge-offs, each as a percentage of total corporate loans, decreased due to an improvement in the overall credit quality of our corporate loans, which was enhanced by an increase in the total amount of our corporate loans from 118,516 billion as of December 31, 2013 to 121,746 billion as of December 31, 2014. Allowance for credit losses for corporate loans as a percentage of impaired corporate loans also decreased during 2014 as the degree of overall impairment of our impaired corporate loans was not as severe in 2014 compared to 2013, resulting in a decrease in the level of our allowance for credit losses for corporate loans from 2,932 billion as of December 31, 2013 to 2,150 billion as of December 31, 2014.

Although the amount of impaired corporate loans remained relatively stable at 4,906 billion as of December 31, 2013 compared to 4,897 billion as of December 31, 2012, impaired corporate loans as a percentage of total corporate loans decreased as a result of an increase in non-impaired corporate loans from 103,833 billion as of December 31, 2012 to 113,610 billion as of December 31, 2013. However, allowance for credit losses for corporate loans as a percentage of both total corporate loans and impaired corporate loans increased, due mainly to the fact that the increase in allowance for credit losses derived from loans newly classified as impaired was higher than the decrease in the allowance for credit losses caused by write-offs or disposals of impaired loans in 2013, reflecting an overall deterioration in the asset quality of our impaired corporate loans.

Consumer Loans and Credit Card Balances.

The following table shows, for the periods indicated, certain information regarding our impaired loans to the consumer sector, excluding credit card balances:

	As of December 31,		
	2012(1)	2013(2)	2014(2)
Impaired consumer loans as a percentage of total consumer loans	0.6%	0.9%	0.6%
Allowance for credit losses for consumer loans as a percentage of total consumer loans	0.4	0.4	0.4
Allowance for credit losses for consumer loans as a percentage of impaired consumer loans	65.2	49.8	66.3
Net charge-offs of consumer loans as a percentage of total consumer loans	0.1	0.1	0.1

(1) The amounts for 2012 include only Woori Bank (including its former credit card operations) and Woori Investment Bank, which accounted for a substantial majority of our continuing operations.
(2) The amounts for 2013 and 2014 include only continuing operations.

During 2014, impaired consumer loans as a percentage of total consumer loans decreased mainly as a result of an improvement in the overall credit quality of our consumer loans, which was enhanced by an increase in the total amount of our consumer loans from 71,041 billion as of December 31, 2013 to 80,217 billion as of December 31, 2014. However, allowance for credit losses for consumer loans as a percentage of impaired consumer loans increased, as the degree of overall impairment of our impaired consumer loans (particularly general purpose household loans) became more severe in 2014 compared to 2013, resulting in an increase in the level of our allowance for credit losses for consumer loans from 300 billion as of December 31, 2013 to 330 billion as of December 31, 2014. Allowance for credit losses for consumer loans as a percentage of total consumer loans remained stable due to the increase in the total amount of our consumer loans.

During 2013, impaired consumer loans as a percentage of total consumer loans increased, mainly as a result of an increase in the amount of impaired mortgage loans and home equity loans. As such impaired consumer loans require a proportionally lower allowance for loan losses than loans that are unsecured, the increase in our impaired consumer loan balances did not lead to a proportional increase in the allowance for loan losses. This resulted in a reduction in the allowance for credit losses for consumer loans as a percentage of impaired consumer loans, while such allowance as a percentage of total consumer loans remained relatively stable.

The following table shows, for the periods indicated, certain information regarding our impaired credit card balances:

	As of December 31,		
	2012(1)	2013(2)	2014(2)
Impaired credit card balances as a percentage of total credit card balances(3)	1.7%	1.8%	2.6%
Allowance for credit losses for credit card balances as a percentage of total credit card balances(3)	2.9	2.5	2.5
Allowance for credit losses for credit card balances as a percentage of impaired credit card balances(3)	171.0	141.3	97.7
Net charge-offs as a percentage of total credit card balances(3)	3.5	3.3	2.6

(1) The amounts for 2012 include only Woori Bank (including its former credit card operations) and Woori Investment Bank, which accounted for a substantial majority of our continuing operations.
(2) The amounts for 2013 and 2014 include only continuing operations.
(3) Includes corporate credit card balances.

During 2014, impaired credit card balances as a percentage of total credit card balances increased due to the inclusion of restructured loans in impaired credit card balances starting from 2014. However, we calculate allowance for credit losses for credit card balances based on a statistical analysis of historical information for all credit card receivables. There was an improvement in the overall mix of our non-impaired credit card balances in 2014 compared to 2013, including as a result of an increase in new credit card balances as well as a reduction in the average number of days that outstanding credit card balances were in arrears. Due to such improvement, our overall allowance for credit losses on credit card balances increased at a slower pace than the increase in impaired credit card balances. As a result, allowance for credit losses for credit card balances as a percentage of impaired credit card balances decreased, while such allowance as a percentage of total credit card balances remained stable.

During 2013, impaired credit card balances as a percentage of total credit card balances increased as a result of an increase in impaired credit card balances. However, there was an improvement in the overall mix of our non-impaired credit card balances in 2013 compared to 2012, including as a result of a reduction in the average number of days such balances were in arrears. Such improvement caused a reduction in the incurred but not identified allowance for credit losses on non-impaired credit card balances. The decrease in allowance for credit losses on non-impaired credit card balances more than offset the increase in allowance for credit losses caused by the increase in impaired credit card balances. This resulted in a decrease in allowance for credit losses for credit card balances as a percentage of both total and impaired credit card balances.

Net Fees and Commissions Income

The following table shows, for the periods indicated, the components of our net fees and commissions income:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Fees and commissions income	1,687	1,565	1,598	(7.2)%	2.1%
Fees and commissions expense	(498)	(639)	(681)	28.3	6.6
Total fees and commissions income, net	1,189	926	917	(22.1)%	(1.0)%

Comparison of 2014 to 2013

Our net fees and commissions income decreased 1.0% from 926 billion in 2013 to 917 billion in 2014, as a 6.6% increase in fees and commissions expense from 639 billion in 2013 to 681 billion in 2014 outpaced a 2.1% increase in fees and commissions income from 1,565 billion in 2013 to 1,598 billion in 2014. The 6.6% increase in fees and commissions expense was primarily due to an 8.4% increase in credit card commissions from 512 billion in 2013 to 555 billion in 2014, which mainly reflected an increase in the volume of credit card transactions as well as an increase in credit card issuances. The 2.1% increase in fees and commissions income was mainly the result of an 11.7% increase in credit card fees from 669 billion in 2013 to 747 billion in 2014, which primarily reflected the increase in the volume of credit card transactions and the increase in credit card issuances.

For further information regarding our net fees and commission income, see Note 35 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2013 to 2012

Our net fees and commissions income decreased 22.1% from 1,189 billion in 2012 to 926 billion in 2013, as the effect of a 28.3% increase in fees and commissions expense from 498 billion in 2012 to 639 billion in 2013 was enhanced by a 7.2% decrease in fees and commissions income from 1,687 billion in 2012 to 1,565 billion in 2013. The 28.3% increase in fees and commissions expense was primarily due to a 30.2% increase in credit card commissions from 393 billion in 2012 to 512 billion in 2013, which mainly reflected an increase in miscellaneous credit card commissions paid as a result of new businesses commenced by Woori Card after its spin-off, as well as a 20.0% increase in fees paid from 98 billion in 2012 to 117 billion in 2013, which was mainly attributable to an increase in fees paid relating to such businesses. The 7.2% decrease in fees and commissions income was mainly the result of a 9.1% decrease in banking fees from 738 billion in 2012 to 671 billion in 2013, which primarily reflected a decrease in sales commissions received for bancassurance products.

For further information regarding our net fees and commission income, see Note 35 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Gain on Financial Assets

The following table shows, for the periods indicated, the components of our net gain on financial assets:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Gain (loss) on financial assets at fair value through profit or loss, net	(365)	124	190	N/M(1)	53.2%
Gain (loss) on available-for-sale financial assets, net(2)	533	(85)	(69)	N/M(1)	(18.8)
Total net gain (loss) on financial assets	168	39	121	(76.8)%	210.3%

(1) N/M = not meaningful.

(2) Includes impairment losses on available-for-sale financial assets of 118 billion in 2012, 145 billion in 2013 and 241 billion in 2014.

Comparison of 2014 to 2013

Our net gain on financial assets increased 210.3% from 39 billion in 2013 to 121 billion in 2014, primarily as a result of a 53.2% increase in net gain on financial assets at fair value through profit or loss from 124 billion in 2013 to 190 billion in 2014, the effect of which was enhanced by an 18.8% decrease in net loss on available-for-sale financial assets from 85 billion in 2013 to 69 billion in 2014.

The 53.2% increase in net gain on financial assets at fair value through profit or loss was principally due to a change in net gain (loss) on financial assets designated at fair value through profit or loss, from a net loss of 6 billion in 2013 to a net gain of 28 billion in 2014, which was enhanced by a 24.6% increase in gains on financial assets held for trading from 130 billion in 2013 to 162 billion in 2014. The change in net gain (loss) on financial assets designated at fair value through profit or loss resulted mainly from a change in net gain (loss) on compound financial instruments from a net loss of 8 billion in 2013 to a net gain of 17 billion in 2014, as well as a 266.7% increase in gain on other financial instruments from 3 billion in 2013 to 11 billion in 2014. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

The 18.8% decrease in net loss on available-for-sale financial assets was principally due to a 191.5% increase in gains on transactions of available-for-sale securities from 59 billion in 2013 to 172 billion in 2014, which mainly reflected an increase in gains on transactions of money market funds and beneficiary certificates. Such decrease was partially offset by a 66.2% increase in impairment loss on available-for-sale securities from 145 billion in 2013 to 241 billion in 2014, which was attributable mainly to an increase in impairment losses recognized on our holdings of the equity securities of Taihan Electric Wire Co., Ltd.

Unrealized gains and losses (other than impairment losses) on available-for-sale financial assets are recorded in our statement of financial position as part of accumulated other comprehensive income, under other equity. In 2014, we recognized a net loss on valuation of available-for-sale financial assets of 76 billion as part of other comprehensive income (loss) net of tax.

Comparison of 2013 to 2012

Our net gain on financial assets decreased 76.8% from 168 billion in 2012 to 39 billion in 2013, primarily as a result of a change in net gain (loss) on available-for-sale financial assets from a net gain of 533 billion in 2012 to a net loss of 85 billion in 2013, the effect of which was partially offset by a change in net gain (loss) on financial assets at fair value through profit or loss from a net loss of 365 billion in 2012 to a net gain of 124 billion in 2013.

The change in net gain (loss) on available-for-sale financial assets was principally due to a 90.1% decrease in net gain on transaction of available-for-sale securities from 651 billion in 2012 to 59 billion in 2013, which mainly reflected extraordinary gains realized by us upon our disposal of equity securities of Hynix Semiconductor Inc. in 2012, which were not repeated in 2013. Such change was enhanced by a 22.9% increase in impairment loss on available-for-sale securities from 118 billion in 2012 to 145 billion in 2013, which was attributable mainly to an increase in impairment losses recognized on our holdings of equity securities in 2013 in light of higher market volatility.

The change in net gain (loss) on financial assets at fair value through profit or loss was principally due to a change in net gain (loss) on financial assets held for trading, from a net loss of 327 billion in 2012 to a net gain of 130 billion in 2013. The change in net gain (loss) on financial assets held for trading resulted mainly from a change in net gain (loss) on transaction of derivatives held for trading from a net loss of 201 billion in 2012 to a net gain of 166 billion in 2013, driven mainly by a change in net gain (loss) on transaction of currency derivatives from a net loss of 145 billion in 2012 to a net gain of 216 billion in 2013. The effect of this change was enhanced by a change in net gain (loss) on valuation of derivatives held for trading from a net loss of 159 billion in 2012 to a net gain of 2 billion in 2013, resulting mainly from an 80.9% decrease in loss on valuation of currency derivatives from 199 billion in 2012 to 38 billion in 2013. For further information regarding our net gain (loss) on financial assets at fair value through profit or loss, see Note 37 of the notes to our consolidated financial statements included elsewhere in this annual report.

In 2013, we recognized a net loss on valuation of available-for-sale financial assets of 51 billion as part of other comprehensive income (loss) net of tax.

Net Other Operating Expense

The following table shows, for the periods indicated, the components of our net other operating expenses:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Other operating income	2,761	3,107	2,257	12.5%	(27.4)%
Other operating expenses	(5,719)	(6,135)	(5,890)	7.3	(4.0)
Total net other operating expenses	(2,958)	(3,028)	(3,633)	2.4%	20.0%

Comparison of 2014 to 2013

Our net other operating expenses increased 20.0% from 3,028 billion in 2013 to 3,633 billion in 2014, as the effect of a 4.0% decrease in other operating expenses from 6,135 billion in 2013 to 5,890 billion in 2014 was more than offset by a 27.4% decrease on other operating income from 3,107 billion in 2013 to 2,257 billion in 2014.

Other operating income includes principally gains on transaction of foreign exchange, gains on disposal of loans and receivables, gains on fair value of hedged items and miscellaneous other operating income. The 27.4% decrease in other operating income was attributable mainly to a 26.8% decrease in gains on transaction of foreign exchange from 2,573 billion in 2013 to 1,884 billion in 2014. This decrease, which was principally due to reduced exchange rate volatility in 2014, was partially offset by a decrease in loss on transaction of foreign exchange which is recorded as part of other operating expenses. On a net basis, our net gain (loss) on transaction of foreign exchange changed from a net gain of 133 billion in 2013 to a net loss of 19 billion in 2014. The decrease in gains on transaction of foreign exchange was enhanced by a 52.5% decrease in other miscellaneous operating income from 280 billion in 2013 to 133 billion in 2014, which was attributable mainly to a 52.3% decrease in amounts to be received from other creditor financial institutions under the terms of borrower debt restructuring programs from 216 billion in 2013 to 103 billion in 2014.

Other operating expenses include principally administrative expenses (which in turn mainly include short term salaries and other employee benefits, rent and depreciation and amortization, among others), losses on transaction of foreign exchange, contributions to miscellaneous funds, deposit insurance premiums, losses on hedging derivatives and miscellaneous other operating expenses. The 4.0% decrease in other operating expenses was primarily the result of a 28.2% decrease in loss on transaction of foreign exchange from 2,439 billion in 2013 to 1,902 billion in 2014, which reflected reduced exchange rate volatility during 2014. This decrease was more than offset by a decrease in gains on transaction of foreign exchange, which is recorded as part of other operating income as discussed above. The decrease in loss on transaction of foreign exchange was enhanced by an 82.5% decrease in losses related to derivatives from 120 billion in 2013 to 21 billion in 2014, which also mainly reflected reduced exchange rate volatility during 2014. Such decreases were offset in part by a more than three-fold increase in other miscellaneous operating expenses from 74 billion in 2013 to 293 billion in 2014, as well as a 2.0% increase in administrative expenses from 2,902 billion in 2013 to 2,959 billion in 2014. Such increase in other miscellaneous operating income was primarily due to a more than six-fold increase in amounts payable to other creditor financial institutions under the terms of borrower debt restructuring programs from 35 billion in 2013 to 218 billion in 2014. Such increase in administrative expenses was attributable mainly to a 2.0% increase in employee benefits from 1,714 billion in 2013 to 1,748 billion in 2014, as well as a 15.1% increase in rent from 231 billion in 2013 to 266 billion in 2014. The increase in employee benefits was primarily due to a 20.7% increase in redundancy payments from 58 billion in 2013 to 70 billion in 2014, resulting mainly from an increase in the number of retiring branch managers in connection with the wage peak system, as well as a 4.0% increase in other short term employee benefits from 346 billion in 2013 to 360 billion in 2014, principally reflecting an increase in miscellaneous physical training fringe benefits. The increase in rent was primarily due to leases of new locations for branches, including at Gimpo Airport.

For further information regarding our net other operating expense, see Note 40 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2013 to 2012

Our net other operating expenses increased 2.4% from 2,958 billion in 2012 to 3,028 billion in 2013, as the effect of a 12.5% increase on other operating income from 2,761 billion in 2012 to 3,107 billion in 2013 was more than offset by a 7.3% increase in other operating expenses from 5,719 billion in 2012 to 6,135 billion in 2013.

The 12.5% increase in other operating income was attributable mainly to a 135.8% increase in miscellaneous other operating income from 117 billion in 2012 to 277 billion in 2013. This increase, which was principally due to the recognition in 2013 of certain payments due from other creditor financial institutions for the settlement of accounts, was enhanced by a 5.6% increase in gains on transaction of foreign exchange from 2,435 billion in 2012 to 2,572 billion in 2013, which was principally due to higher exchange rate volatility in 2013. The increase on gains on transaction of foreign exchange was more than offset by an increase in loss on transaction of foreign exchange which is recorded as part of other operating expenses. On a net basis, our net gain on transaction of foreign exchange decreased 65.9% from 391 billion in 2012 to 133 billion in 2013.

The 7.3% increase in other operating expenses was primarily the result of a 19.3% increase in losses on transaction of foreign exchange from 2,044 billion in 2012 to 2,439 billion in 2013, which reflected higher exchange rate volatility during 2013. This increase was partially offset by an increase in gains on transaction of foreign exchange, which is recorded as part of other operating income as discussed above. The increase in losses on transaction of foreign exchange was enhanced by a 4.0% increase in administrative expenses from 2,789 billion in 2012 to 2,902 billion in 2013, which was attributable mainly to 5.6% increase in short term salaries from 1,123 billion in 2012 to 1,187 billion in 2013, principally reflecting increased salaries paid to our employees.

For further information regarding our net other operating expense, see Note 40 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Other Non-operating Income

The following table shows, for the periods indicated, the components of our net other non-operating income:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Other non-operating income	148	145	134	(2.0)%	(7.6)%
Other non-operating expenses	(104)	(96)	(130)	(7.7)	35.4
Total net other non-operating income (expenses)	44	49	4	11.4%	(91.8)%

Comparison of 2014 to 2013

Our net other non-operating income decreased 91.8% from 49 billion in 2013 to 4 billion in 2014, as the effect of a 35.4% increase in other non-operating expenses from 96 billion in 2013 to 130 billion in 2014 was enhanced by a 7.6% decrease in other non-operating income from 145 billion in 2013 to 134 billion in 2014.

Other non-operating income includes principally gains on disposal of investment in joint ventures and associates, gains on disposal of premises and equipment and other assets, rental income and miscellaneous other non-operating income. The 7.6% decrease in other non-operating income was attributable mainly to a 15.5% decrease in miscellaneous other non-operating income from 110 billion in 2013 to 93 billion in 2014.

Other non-operating expenses include principally donations, expenses on investment properties, losses on disposal of investment in joint ventures and associates and miscellaneous other non-operating expenses. The 35.4% increase in other non-operating expenses was attributable mainly to a 106.3% increase in miscellaneous other non-operating expenses from 32 billion in 2013 to 66 billion in 2014.

Comparison of 2013 to 2012

Our net other non-operating income increased 11.4% from 44 billion in 2012 to 49 billion in 2013, as the effect of a 7.7% decrease in other non-operating expenses from 104 billion in 2012 to 96 billion in 2013 was partially offset by a 2.0% decrease in other non-operating income from 148 billion in 2012 to 145 billion in 2013.

The 2.0% decrease in other non-operating income was attributable mainly to a 30.0% decrease in gains on disposal of investment in joint ventures and associates from 29 billion in 2012 to 20 billion in 2013. This decrease was principally due to losses from the disposal of our interest in certain companies in 2012, which was not repeated in 2013.

The 7.7% decrease in other non-operating expenses was attributable mainly to a 23.7% decrease in donations from 69 billion in 2012 to 52 billion in 2013.

Income Tax Expense

Our income tax expense is calculated by adding or subtracting changes in deferred income tax liabilities and assets to income tax amounts payable for the period. Deferred tax assets are recognized for deductible temporary differences, including operating losses and tax credit carry-forwards, while deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are those between the carrying values of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets, including the carry-forwards of unused tax losses, are recognized to the extent it is probable that the deferred tax assets will be realized.

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Comparison of 2014 to 2013

Income tax expense increased 722.9 % from 35 billion in 2013 to 288 billion in 2014, mainly as a result of an increase in our net income before income tax expense, as well as an increase in non-deductible expenses. The statutory tax rate was 24.2% for pre-tax income over 20 billion in 2013 and 2014. Our effective tax rate was 12.2% in 2013 and 34.5 % in 2014. See Note 42 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2013 to 2012

Income tax expense decreased 90.2% from 357 billion in 2012 to 35 billion in 2013, mainly as a result of a decrease in our net income before income tax expense. The statutory tax rate was 24.2% for pre-tax income over 20 billion in 2012 and 2013. Our effective tax rate was 21.6% in 2012 and 12.2% in 2013. See Note 42 of the notes to our consolidated financial statements included elsewhere in this annual report.

Net Income from Continuing Operations

Due to the factors described above, we recorded net income from continuing operations of 546 billion in 2014, compared to 253 billion in 2013 and 1,281 billion in 2012.

Net Income (Loss) from Discontinued Operations

The Korean government, which currently owns 51.04% of our outstanding common stock through the KDIC, has been implementing a privatization plan with respect to Woori Finance Holdings and its former subsidiaries, including us. See Item 4A. History and Development of the Company Privatization Plan. In light of the dispositions of such former subsidiaries under the privatization plan, which were completed during 2014, Kwangju Bank, Kyongnam Bank, Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I were classified as a disposal group held for distribution or sale, and their operations were accounted for as discontinued operations, in our consolidated financial statements as of and for the year ended December 31, 2013, as well as in our consolidated statement of comprehensive income for the year ended December 31, 2014, included in this annual report. Similarly, our consolidated statement of comprehensive income for the year ended December 31, 2012 included in this annual report was restated to account for such entities as discontinued operations.

For further information regarding the accounting treatment of our discontinued operations, see Notes 46 and 47 of the notes to our consolidated financial statements included elsewhere in this annual report.

Comparison of 2014 to 2013

Net income (loss) from discontinued operations changed from a net loss of 966 billion in 2013 to net income of 662 billion in 2014. Such change was attributable primarily to the impairment losses of 793 billion recognized in 2013 on the disposal group held for sale (comprising Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I), as well as certain income tax expense amounts recognized in 2013 in connection with the planned spin-off of the disposal group held for distribution (comprising Kwangju Bank and Kyongnam Bank), as discussed below, both of which were not repeated in 2014. The effect of these changes was enhanced by the recognition in 2014 of 577 billion of income tax benefit with respect to the disposal group held for distribution, due mainly to the reversal in 2014 of the income tax expense amounts recognized in 2013 in connection with the planned spin-off of such disposal group, as a result of the adoption and effectiveness prior to such spin-off in May 2014 of an amendment to the Tax Reduction and Exemption Control Act of Korea that allowed the spin-off to be recognized as a tax-free transaction.

Comparison of 2013 to 2012

Net income (loss) from discontinued operations changed from net income of 567 billion in 2012 to a net loss of 966 billion in 2013. Such change was attributable primarily to impairment losses of 793 billion

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recognized in 2013 on the disposal group held for sale (comprising Woori Investment & Securities, Woori Aviva Life Insurance, Woori Asset Management, Woori Financial, Woori FG Savings Bank and Woori F&I), as well as an increase in income tax expense on the disposal group held for distribution (comprising Kwangju Bank and Kyongnam Bank) from 88 billion in 2012 to 639 billion in 2013. The impairment losses recognized in 2013 on the disposal group held for sale reflected the fact that the carrying value of the net assets of such group as of December 31, 2013 exceeded their net fair value, as measured based on the bid prices submitted by the preferred bidders for such group in late 2013. The increase in income tax expense in 2013 on the disposal group held for distribution was primarily due to the recognition as income tax expense in 2013 of certain Korean taxes that may have been imposed on us in connection with the spin-off of such disposal group, if a proposed amendment to the Tax Reduction and Exemption Control Act of Korea that would allow the planned spin-off to be recognized as a tax-free transaction had not been adopted by the Korean National Assembly or had not become effective prior to the date of the spin-off.

Net Income (Loss)

Overall, we recorded net income of 1,208 billion in 2014, compared to a net loss of 713 billion in 2013 and net income of 1,847 billion in 2012.

Results by Principal Business Segment

We compile and analyze financial information for our business segments based upon segment information used by our management for the purposes of resource allocation and performance evaluation. We currently have five operational business segments: consumer banking, corporate banking, investment banking, capital markets and other operations.

The following table shows, for the periods indicated, our results of operations by segment, excluding discontinued operations for all years:

	Net income Year ended December 31,			Total operating income(1) Year ended December 31,		
	2012	2013	2014	2012	2013	2014
	(in billions of Won)					
Consumer banking	392	110	84	537	159	127
Corporate banking	433	(26)	516	574	(24)	673
Investment banking	18	(23)	(51)	(1)	(68)	(108)
Capital markets	(14)	36	(8)	(18)	13	11
Other operations(2)	503	1,521	1,843	596	345	383
Total(3)	1,332	1,618	2,384	1,688	425	1,086

(1) Comprises net interest income, net non-interest income, administrative expenses and impairment losses on credit losses.

(2) In April 2013, we effected a horizontal spin-off of our credit card business, the results of operations of which were previously dispersed among the consumer banking, corporate banking and other operations segments. After the spin-off, our credit card business is included in the other operations segment.

(3) Before adjustments for inter-segment transactions (other than inter-segment loans and borrowings) and certain differences in classification under our management reporting system.

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Consumer Banking

This segment consists of our consumer banking operations. In April 2013, we effected a horizontal spin-off of our credit card business to a new subsidiary, Woori Card, after which our credit card business, most of which had previously been included in this segment, was reclassified as part of the other operations segment. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Income statement data					
Interest income	4,091	3,233	3,032	(21.0)%	(6.2)%
Interest expense	(1,856)	(1,653)	(1,591)	(10.9)	(3.8)
Inter-segment	(135)	(75)	(49)	(44.4)	(34.7)
Net interest income	2,100	1,505	1,392	(28.3)	(7.5)
Non-interest income	687	646	724	(6.0)	12.1
Non-interest expense	(473)	(244)	(250)	(48.4)	2.5
Inter-segment	14	14	20		42.9
Net non-interest income	228	416	494	82.5	18.8
Administrative expenses	(1,673)	(1,643)	(1,700)	(1.8)	3.5
Impairment losses on credit loss and others[(1)]	(118)	(119)	(59)	0.9	(50.4)
Total other expenses	(1,791)	(1,762)	(1,759)	(1.6)	(0.2)
Operating income	537	159	127	(70.4)	(20.1)
Net non-operating loss	(19)	(14)	(15)	(26.3)	7.1
Net income before tax	518	145	111	(72.0)	(23.5)
Income tax expense	(126)	(35)	(27)	(72.2)	(22.9)
Net income	392	110	84	(71.9)%	(23.6)%

(1) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

Comparison of 2014 to 2013

Our net income before tax for this segment decreased 23.5% from 145 billion in 2013 to 111 billion in 2014. Net income after tax also decreased 23.6% from 110 billion in 2013 to 84 billion in 2014.

Interest income for this segment decreased 6.2% from 3,233 billion in 2013 to 3,032 billion in 2014, primarily due to a decrease in the average yield on general purpose household loans (including home equity loans), mainly reflecting the decrease in the general level of interest rates in Korea in 2014, as well as a decrease in the average balance of such loans. The effect of such decreases was offset in part by an increase in the average balance of mortgage loans, mainly reflecting increased demand for such loans, which in turn was partially offset by a decrease in the average yield on such loans.

Interest expense attributable to this segment decreased 3.8% from 1,653 billion in 2013 to 1,591 billion in 2014. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by consumers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2014.

Impairment losses on credit loss and others for this segment decreased 50.4% from 119 billion in 2013 to 59 billion in 2014, primarily as a result of a decrease in provisions for credit losses, net of reversal of allowance for credit losses, mainly reflecting an overall improvement in the asset quality of our consumer loan portfolio, as well as a significant decrease in provisions for credit losses on mortgage loans.

Non-interest income attributable to this segment increased 12.1% from 646 billion in 2013 to 724 billion in 2014, primarily due to an increase in gains on transaction of foreign exchange.

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Non-interest expense for this segment increased 2.5% from 244 billion in 2013 to 250 billion in 2014, primarily as a result of an increase in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment increased 3.5% from 1,643 billion in 2013 to 1,700 billion in 2014, primarily due to an increase in salaries paid to our employees in this segment.

Comparison of 2013 to 2012

Our net income before tax for this segment decreased 72.0% from 518 billion in 2012 to 145 billion in 2013. Net income after tax also decreased 71.9% from 392 billion in 2012 to 110 billion in 2013.

Interest income for this segment decreased 21.0% from 4,091 billion in 2012 to 3,233 billion in 2013, primarily due to a decrease in the average yield on general purpose household loans (including home equity loans), mainly reflecting the decrease in the general level of interest rates in Korea in 2013 and a decrease in the average balance of such loans, as well as a decrease in interest income from credit card receivables due to the exclusion of our credit card business from this segment after the spin-off of such business in April 2013. The effect of such decreases was offset in part by an increase in the average balance of mortgage loans, mainly reflecting increased demand for such loans, which in turn was partially offset by a decrease in the average yield on such loans.

Interest expense attributable to this segment decreased 10.9% from 1,856 billion in 2012 to 1,653 billion in 2013. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by consumers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2013.

Impairment losses on credit loss and others for this segment remained relatively constant at 119 billion in 2013 compared to 118 billion in 2012.

Non-interest income attributable to this segment decreased 6.0% from 687 billion in 2012 to 646 billion in 2013, primarily due to a decrease in gains on transaction of foreign exchange.

Non-interest expense for this segment decreased 48.4% from 473 billion in 2012 to 244 billion in 2013, primarily as a result of decreases in credit card commissions and losses on transaction of foreign exchange.

Administrative expenses attributable to this segment decreased 1.8% from 1,673 billion in 2012 to 1,643 billion in 2013, primarily due to decreases in salaries paid to our employees in this segment, as well as in supplies expenses.

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Corporate Banking

This segment consists of our corporate banking (including small- and medium-sized enterprise banking and large corporate banking) operations. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Income statement data					
Interest income	4,688	3,833	3,637	(18.2)%	(5.1)%
Interest expense	(2,821)	(2,283)	(2,192)	(19.1)	(4.0)
Inter-segment	534	397	297	(25.7)	(25.2)
Net interest income	2,401	1,947	1,742	(18.9)	(10.5)
Non-interest income	972	519	439	(46.6)	(15.4)
Non-interest expense	(525)	(100)	(14)	(81.0)	(86.0)
Inter-segment	21	25	29	19.1	16.0
Net non-interest income	468	444	454	(5.1)	2.3
Administrative expenses	(811)	(832)	(835)	2.6	0.4
Impairment losses on credit loss and others(1)	(1,484)	(1,583)	(688)	6.7	(56.5)
Total other expenses	(2,295)	(2,415)	(1,523)	5.2	(36.9)
Operating income (loss)	574	(24)	673	N/M(2)	N/M(2)
Net non-operating loss	(3)	(10)	(3)	233.3	(70.0)
Net income (loss) before tax	571	(34)	670	N/M(2)	N/M(2)
Income tax expense	(138)	8	(154)	N/M(2)	N/M(2)
Net income (loss)	433	(26)	516	N/M(2)	N/M(2)

(1) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).
(2) N/M = not meaningful.

Comparison of 2014 to 2013

Our net income (loss) before tax for this segment changed from a net loss of 34 billion in 2013 to net income of 670 billion in 2014. Net income (loss) after tax also changed from a net loss of 26 billion in 2013 to net income of 516 billion in 2014.

Interest income for this segment decreased 5.1% from 3,833 billion in 2013 to 3,637 billion in 2014, primarily due to a decrease in average yields on commercial and industrial and other commercial loans, mainly reflecting the decrease in the general level of interest rates in Korea in 2014, the effect of which was partially offset by an increase in the average balance of commercial and industrial loans.

Interest expense attributable to this segment, which consists mainly of interest expense on corporate deposits, borrowings and debentures, decreased 4.0% from 2,283 billion in 2013 to 2,192 billion in 2014. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by corporate customers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2014.

Net interest income from inter-segment transactions for this segment decreased 25.2% from 397 billion in 2013 to 297 billion in 2014, principally as a result of a decrease in the average yield on loans to other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2014.

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Impairment losses on credit loss and others for this segment decreased 56.5% from 1,583 billion in 2013 to 688 billion in 2014, primarily as a result of a decrease in provisions for credit losses, net of reversal of allowance for credit losses, mainly reflecting an overall improvement in the asset quality of our corporate loan portfolio.

Non-interest income attributable to this segment decreased 15.4% from 519 billion in 2013 to 439 billion in 2014, primarily due to decreases in gains on transaction of foreign exchange and commission received on foreign exchange.

Non-interest expense for this segment decreased 86.0% from 100 billion in 2013 to 14 billion in 2014, primarily as a result of a decrease in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment remained relatively stable at 835 billion in 2014 compared to 832 billion in 2013.

Comparison of 2013 to 2012

Our net income (loss) before tax for this segment changed from net income of 571 billion in 2012 to a net loss of 34 billion in 2013. Net income (loss) after tax also changed from net income of 433 billion in 2012 to a net loss of 26 billion in 2013.

Interest income for this segment decreased 18.2% from 4,688 billion in 2012 to 3,833 billion in 2013, primarily due to decreases in average yields on commercial and industrial and trade financing loans, mainly reflecting the decrease in the general level of interest rates in Korea in 2013, as well as a decrease in the average balance of other commercial loans. The effect of such decreases was offset in part by an increase in the average balance of commercial and industrial loans, primarily due to increased demand for working capital loans from large corporate borrowers.

Interest expense attributable to this segment decreased 19.1% from 2,821 billion in 2012 to 2,283 billion in 2013. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits held by corporate customers, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2013.

Net interest income from inter-segment transactions for this segment decreased 25.7% from 534 billion in 2012 to 397 billion in 2013, principally as a result of a decrease in the average yield on loans to other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2013.

Impairment losses on credit loss and others for this segment increased 6.7% from 1,484 billion in 2012 to 1,583 billion in 2013, primarily as a result of an overall deterioration in the asset quality of our corporate loan portfolio, reflecting continuing adverse economic conditions in Korea in 2013.

Non-interest income attributable to this segment decreased 46.6% from 972 billion in 2012 to 519 billion in 2013, primarily due to decreases in gains on transaction of foreign exchange and commission received on foreign exchange.

Non-interest expense for this segment decreased 81.0% from 525 billion in 2012 to 100 billion in 2013, primarily as a result of a decrease in losses on transaction of foreign exchange.

Administrative expenses attributable to this segment increased 2.6% from 811 billion in 2012 to 832 billion in 2013, primarily due to an increase in salaries paid to our employees in this segment.

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Investment Banking

This segment consists of our investment banking operations, including principally project finance, structured finance, merger and acquisition financing and financial advisory services. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			**Percentage change**	
	2012	**2013**	**2014**	**2013/2012**	**2014/2013**
	(in billions of Won)			**(%)**	
Income statement data					
Interest income	337	257	199	(23.7)%	(22.6)%
Interest expense		(1)		N/M[2]	(100.0)
Inter-segment	(331)	(236)	(198)	(28.7)	(16.1)
Net interest income	6	20	1	233.3	(95.0)
Non-interest income	340	402	348	18.2	(13.4)
Non-interest expense	(251)	(334)	(282)	33.1	(15.6)
Inter-segment					
Net non-interest income	89	68	66	(23.6)	(2.9)
Administrative expenses	(18)	(17)	(14)	(5.6)	(17.7)
Impairment losses on credit loss and others[1]	(78)	(139)	(161)	78.2	15.8
Total other expenses	(96)	(156)	(175)	62.5	12.2
Operating loss	(1)	(68)	(108)	6,700.0	58.8
Net non-operating income	24	38	40	58.3	5.3
Net income (loss) before tax	23	(30)	(68)	N/M[2]	126.7
Income tax expense	(5)	7	17	N/M[2]	142.7
Net income (loss)	18	(23)	(51)	N/M[2]	121.7

(1) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).
(2) N/M = not meaningful.

Comparison of 2014 to 2013

Our net loss before tax for this segment increased 126.7% from 30 billion in 2013 to 68 billion in 2014. Net loss after tax also increased 121.7% from 23 billion in 2013 to 51 billion in 2014.

Interest income for this segment, which consists mainly of interest income from working capital loans, decreased 22.6% from 257 billion in 2013 to 199 billion in 2014, mainly reflecting the decrease in the general level of interest rates in Korea in 2014, as well as increases in deferred interest payments by certain companies and non-performing loans extended to certain companies.

Net interest expense on inter-segment transactions for this segment decreased 16.1% from 236 billion in 2013 to 198 billion in 2014, principally as a result of a decrease in the average cost of borrowings from other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2014.

Impairment losses on credit loss and others for this segment increased 15.8% from 139 billion in 2013 to 161 billion in 2014, primarily as a result of an increase in provisions for credit losses with respect to non-performing loans of certain companies.

Non-interest income attributable to this segment decreased 13.4% from 402 billion in 2013 to 348 billion in 2014, primarily due to decreases in gains on transaction of foreign exchange and gains relating to available-for-sale securities in foreign currencies.

Non-interest expense for this segment decreased 15.6% from 334 billion in 2013 to 282 billion in 2014, primarily as a result of decreases in losses on transaction of foreign exchange and losses related to derivatives.

Administrative expenses attributable to this segment decreased 17.7% from 17 billion in 2013 to 14 billion in 2014, primarily due to a decrease in salaries paid to our employees in this segment, principally reflecting a decrease in the number of such employees.

Comparison of 2013 to 2012

Our net income (loss) before tax for this segment changed from net income of 23 billion in 2012 to a net loss of 30 billion in 2013. Net income (loss) after tax also changed from net income of 18 billion in 2012 to a net loss of 23 billion in 2013.

Interest income for this segment decreased 23.7% from 337 billion in 2012 to 257 billion in 2013, primarily due to a decrease in interest on working capital loans, which mainly reflected the decrease in the general level of interest rates in Korea in 2013 and a decrease in the average balance of such loans.

Net interest expense on inter-segment transactions for this segment decreased 28.7% from 331 billion in 2012 to 236 billion in 2013, principally as a result of a decrease in the average cost of borrowings from other segments, which mainly reflected the decrease in the general level of interest rates in Korea in 2013.

Impairment losses on credit loss and others for this segment increased 78.2% from 78 billion in 2012 to 139 billion in 2013, primarily as a result of an increase in provisions for credit losses due to an overall deterioration in the asset quality of this segment, reflecting credit rating downgrades of certain borrowers.

Non-interest income attributable to this segment increased 18.2% from 340 billion in 2012 to 402 billion in 2013, primarily due to an increase in gains on transaction of foreign exchange, mainly reflecting higher exchange rate volatility in 2013.

Non-interest expense for this segment increased 33.1% from 251 billion in 2012 to 334 billion in 2013, primarily as a result of an increase in losses on transaction of foreign exchange, which mainly reflected higher exchange rate volatility in 2013.

Administrative expenses attributable to this segment remained relatively stable at 17 billion in 2013 compared to 18 billion in 2012.

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Capital Markets

This segment consists of our core capital markets operations, including principally securities investment and trading of securities (other than available-for-sale securities), foreign exchange and derivatives. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
		(in billions of Won)		(%)	
Income statement data					
Interest income	289	82	26	(71.6)%	(68.3)%
Interest expense	(168)	(29)		(82.7)	(100.0)
Inter-segment	(33)	7	3	N/M[2]	(57.1)
Net interest income	88	60	29	31.8	(51.7)
Non-interest income	5,760	4,850	3,970	(15.8)	(18.1)
Non-interest expense	(5,778)	(4,857)	(3,978)	(15.9)	(18.1)
Inter-segment					
Net non-interest expense	(18)	(7)	(8)	(61.1)	14.3
Administrative expenses	(24)	(22)	(16)	(8.3)	(27.3)
Impairment losses on credit loss and others[1]	(64)	(18)	6	(71.9)	N/M[2]
Total other expenses	(88)	(40)	(10)	(54.6)	(75.0)
Operating income (loss)	(18)	13	11	N/M[2]	(15.4)
Net non-operating income (loss)		34	(21)	N/M[2]	N/M[2]
Net income (loss) before tax	(18)	47	(10)	N/M[2]	N/M[2]
Income tax expense	4	(11)	2	N/M[2]	N/M[2]
Net income (loss)	(14)	36	(8)	N/M[2]	N/M[2]

(1) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).
(2) N/M = not meaningful.

Comparison of 2014 to 2013

Our net income (loss) before tax for this segment changed from net income of 47 billion in 2013 to a net loss of 10 billion in 2014. Net income (loss) after tax also changed from net income of 36 billion in 2013 to a net loss of 8 billion in 2014.

Interest income for this segment, which consists mainly of interest income from held-for-trading securities, decreased 68.3% from 82 billion in 2013 to 26 billion in 2014, primarily due to the discontinuation of the former lending operations of our merchant banking unit in 2013 due to the expiration of the relevant license and decreases in the average balance and average interest rate of held-for-trading securities.

Interest expense attributable to this segment, which consists mainly of interest expense on savings deposits held by our merchant banking unit, decreased from 29 billion in 2013 to nil in 2014. The decrease in interest expense was primarily due to the discontinuation of the former deposit-taking operations of our merchant banking unit in 2013 due to the expiration of the relevant license.

Impairment losses on credit loss and others for this segment changed from a net loss of 18 billion in 2013 to net gain of 6 billion in 2014, primarily as a result of the reclassification of certain expenses related to a lawsuit from impairment losses on credit loss and others in 2013 to non-operating expenses in 2014.

Non-interest income attributable to this segment decreased 18.1% from 4,850 billion in 2013 to 3,970 billion in 2014, primarily due to decreases in gains related to derivatives and gains on held-for-trading securities.

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Non-interest expense for this segment decreased 18.1% from 4,857 billion in 2013 to 3,978 billion in 2014, primarily as a result of decreases in losses related to derivatives and losses on transaction of foreign exchange.

Administrative expenses attributable to this segment decreased 27.3% from 22 billion in 2013 to 16 billion in 2014, primarily due to the discontinuation of the former operations of our merchant banking unit in 2013.

Net non-operating income (loss) for this segment changed from a net income of 34 billion in 2013 to a net loss of 21 billion in 2014, primarily as a result of the reclassification of certain expenses from impairment losses on credit loss and others to non-operating expenses in 2014, as described above.

Comparison of 2013 to 2012

Our net income (loss) before tax for this segment changed from a net loss of 18 billion in 2012 to net income of 47 billion in 2013. Net income (loss) after tax also changed from a net loss of 14 billion in 2012 to net income of 36 billion in 2013.

Interest income for this segment decreased 71.6% from 289 billion in 2012 to 82 billion in 2013, primarily due to a decrease in the average balance of held-for-trading securities, mainly reflecting a decrease in the volume of debt securities issued by corporations and financial institutions that we held for trading purposes.

Interest expense attributable to this segment decreased 82.7% from 168 billion in 2012 to 29 billion in 2013. The decrease in interest expense was primarily due to decreases in the volume of, and interest on, savings deposits held by our merchant banking unit.

Impairment losses on credit loss and others for this segment decreased 71.9% from 64 billion in 2012 to 18 billion in 2013, primarily as a result of an increase in provisions for credit losses in accordance with a change in credit risk adjustment standards for derivative products with respect to certain shipbuilding companies in 2012, which was not repeated in 2013 due to the refinancing of the relevant loans.

Non-interest income attributable to this segment decreased 15.8% from 5,760 billion in 2012 to 4,850 billion in 2013, primarily due to decreases in gains related to derivatives and gains on transaction of foreign exchange.

Non-interest expense for this segment decreased 15.9% from 5,778 billion in 2012 to 4,857 billion in 2013, primarily as a result of a decrease in losses related to derivatives.

Administrative expenses attributable to this segment remained relatively stable at 22 billion in 2013 compared to 24 billion in 2012.

Other Operations

Other operations include all of our operations not included in the other segments, including principally our credit card business, the operations of our Credit Management and Collection Department, our treasury operations involving transactions of available-for-sale securities and financing among financial institutions as well as the operations of all of our subsidiaries. In April 2013, we effected a horizontal spin-off of our credit card business to a new subsidiary, Woori Card, after which our credit card business, most of which had previously been included in the consumer banking segment, was reclassified as part of this segment. The following table shows, for the periods indicated, our income statement data for this segment:

	Year ended December 31,			Percentage change	
	2012	2013	2014	2013/2012	2014/2013
	(in billions of Won)			(%)	
Income statement data					
Interest income	1,866	1,925	1,988	3.2%	3.3%
Interest expense	(1,333)	(1,163)	(1,100)	(12.8)	(5.4)
Inter-segment	(35)	(92)	(52)	162.9	(43.5)
Net interest income	498	670	836	34.5	24.8
Non-interest income	2,745	3,522	2,951	28.3	(16.2)
Non-interest expense	(1,971)	(2,954)	(2,554)	49.9	(13.5)
Inter-segment	(34)	(40)	(49)	17.7	22.5
Net non-interest income	740	528	347	(28.7)	(34.3)
Administrative expenses	(451)	(586)	(627)	29.9	7.0
Impairment losses on credit loss and others(1)	(191)	(268)	(173)	40.3	(35.5)
Total other expenses	(642)	(853)	(800)	32.9	(6.2)
Operating income	596	345	383	(42.1)	11.0
Net non-operating income	75	1,662	1,586	2,116.0	(4.6)
Net income before tax	671	2,007	1,969	199.1	(1.9)
Income tax expense	(168)	(486)	(126)	189.3	(74.1)
Net income	503	1,521	1,843	202.4%	21.2%

(1) Consist of impairment losses on credit loss, gain (loss) on loan sales and provisions (reversal of provisions).

Comparison of 2014 to 2013

Our net income before tax for this segment decreased 1.9% from 2,007 billion in 2013 to 1,969 billion in 2014. Net income after tax increased 21.2% from 1,521 billion in 2013 to 1,843 billion in 2014.

Interest income for this segment, which mainly includes interest income on credit card receivables, due from banks and certain other loans and financial assets, increased 3.3% from 1,925 billion in 2013 to 1,988 billion in 2014, primarily due to an increase in interest on credit card receivables, mainly reflecting an increase in the volume of credit card transactions and an increase in credit card issuances.

Interest expense attributable to this segment, which mainly includes interest expense on debentures, borrowings, call money and deposits due to customers, decreased 5.4% from 1,163 billion in 2013 to 1,100 billion in 2014. The decrease in interest expense was primarily due to decreased funding costs for this segment in light of the lower interest rate environment in Korea in 2014.

Impairment losses on credit loss and others for this segment decreased 35.5% from 268 billion in 2013 to 173 billion in 2014, primarily as a result of an overall improvement in the asset quality of assets held by our subsidiaries, our Credit Management and Collection Department and our Treasury Department included in this segment, the effect of which was offset in part by increased provisions in respect of credit card receivables.

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Non-interest income attributable to this segment, which mainly includes gains on transaction of foreign exchange, gains on fair value hedged items, gains on transactions of derivatives and other credit card related income, decreased 16.2% from 3,522 billion in 2013 to 2,951 billion in 2014, primarily due to decreases in gains on transactions of foreign exchange and derivatives, mainly reflecting lower exchange rate volatility in 2014. Such decreases were partially offset by an increase in credit card commissions, mainly reflecting an increase in the volume of credit card transactions and the increase in credit card issuances.

Non-interest expense for this segment, which mainly includes losses on transaction of foreign exchange, losses on fair value hedged items, losses on transactions of derivatives and other credit card related expenses and fees, decreased 13.5% from 2,954 billion in 2013 to 2,554 billion in 2014, primarily as a result of decreases in losses on transaction of foreign exchange and losses on transactions of derivatives, mainly reflecting lower exchange rate volatility in 2014. Such decrease was partially offset by an increase in credit commissions, mainly reflecting an increase in the volume of credit card transactions and the increase in credit card issuances.

Administrative expenses attributable to this segment increased 7.0% from 586 billion in 2013 to 627 billion in 2014, primarily due to increases in redundancy payments, rent and service charges.

Comparison of 2013 to 2012

Our net income before tax for this segment increased 199.1% from 671 billion in 2012 to 2,007 billion in 2013. Net income after tax also increased 202.4% from 503 billion in 2012 to 1,521 billion in 2013.

Interest income for this segment increased 3.2% from 1,866 billion in 2012 to 1,925 billion in 2013, primarily due to an increase in interest income from credit card receivables due to the inclusion of our credit card business in this segment after the spin-off of such business in April 2013.

Interest expense attributable to this segment decreased 12.8% from 1,333 billion in 2012 to 1,163 billion in 2013. The decrease in interest expense was primarily due to a decrease in the average cost of time and savings deposits included in this segment, which was mainly attributable to the decrease in the general level of interest rates in Korea in 2014.

Impairment losses on credit loss and others for this segment increased 40.3% from 191 billion in 2012 to 268 billion in 2013, primarily as a result of an increase in non-performing loans included in this segment, reflecting continuing adverse economic conditions in Korea in 2013.

Non-interest income attributable to this segment increased 28.3% from 2,745 billion in 2012 to 3,522 billion in 2013, primarily due to an increase in gains on transaction of foreign exchange, mainly reflecting higher exchange rate volatility in 2013, and an increase in credit card fees due to the inclusion of our credit card business in this segment after its spin-off.

Non-interest expense for this segment increased 49.9% from 1,971 billion in 2012 to 2,954 billion in 2013, primarily as a result of an increase in losses on transaction of foreign exchange, mainly reflecting higher exchange rate volatility in 2013, and an increase in credit card commissions due to the inclusion of our credit card business in this segment after its spin-off.

Administrative expenses attributable to this segment increased 29.9% from 451 billion in 2012 to 586 billion in 2013, primarily due to increases in salaries and retirement benefit service costs, which mainly reflected the inclusion of our credit card business in this segment after its spin-off.

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Item 5B. ***Liquidity and Capital Resources***
Financial Condition

Assets

The following table sets forth, as of the dates indicated, the principal components of our assets:

	As of December 31,			Percentage change	
	2012	2013(1)	2014(1)	2013/2012	2014/2013
	(in billions of Won)			(%)	
Cash and cash equivalents	5,778	5,478	5,963	(5.2)%	8.9%
Financial assets at fair value through profit or loss	27,352	4,806	4,554	(82.4)	(5.2)
Available-for-sale financial assets	18,889	17,085	18,811	(9.6)	10.1
Held-to-maturity financial assets	18,685	12,039	13,044	(35.6)	8.3
Loans and receivables:					
Due from banks	14,375	10,208	11,101	(29.0)	8.7
Loans in local currency	178,387	156,028	167,262	(12.5)	7.2
Loans in foreign currencies	10,454	9,997	11,281	(4.4)	12.8
Domestic banker s letter of credit	5,241	4,959	5,712	(5.4)	15.2
Credit card accounts	4,501	4,206	5,110	(6.6)	21.5
Bills bought in local currency	888	186	259	(79.1)	39.2
Bills bought in foreign currencies	4,663	4,235	5,552	(9.2)	31.1
Factoring receivables	187	176	92	(5.9)	(47.7)
Advances for customers on guarantees	128	55	53	(57.0)	(3.6)
Privately placed bonds	1,448	485	333	(66.5)	(31.3)
Loans to be converted to equity securities	2			(100.0)	
Finance leases	640			(100.0)	
Loans for installment	1,811			(100.0)	
Securitized loans	1,585	311	296	(80.4)	(4.8)
Loans secured by securities	1,231			(100.0)	
Call loans	5,378	8,092	4,175	50.5	(48.4)
Bonds purchased under resale agreements	4,414	4,981	6,892	12.9	38.4
Other loans	303	326	412	7.6	26.4
Other receivables	18,205	11,004	7,451	(39.6)	(32.3)
	253,841	215,249	225,979	(15.2)	5.0
Less:					
Allowance for credit losses	3,565	3,337	2,609	(6.4)	(21.8)
Total loans and receivables, net	250,276	211,912	223,370	(15.3)	5.4
Premises and equipment, net	3,186	2,536	2,501	(20.4)	(1.4)
Other assets(2)	2,936	1,837	1,914	(37.4)	4.2
Disposal group held for sale		34,685			(100.0)
Disposal group held for distribution		50,312			(100.0)
Total assets	327,102	340,690	270,157	4.2%	(20.7)%

(1) The amounts as of December 31, 2013 reflect the classification of certain former subsidiaries as a disposal group held for distribution or sale. See Overview Privatization Plan.

(2) Includes investments in joint ventures and associates, investment properties, intangible assets and goodwill, current tax assets, deferred tax assets, derivative assets, assets held for sale and other assets.

For further information on our assets, see Item 4B. Business Overview Assets and Liabilities.

Comparison of 2014 to 2013

Our total assets decreased 20.7% from 340,690 billion as of December 31, 2013 to 270,157 billion as of December 31, 2014, primarily as a result of the dispositions during 2014 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 pursuant to the privatization plan of the Korean government with respect to Woori Finance Holdings and its former subsidiaries. See Item 4A. History and Development of the Company Privatization Plan.

Comparison of 2013 to 2012

Our total assets increased 4.2% from 327,102 billion as of December 31, 2012 to 340,690 billion as of December 31, 2013. However, the amounts for most asset categories decreased from December 31, 2012 to December 31, 2013, primarily as a result of the classification 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 as a disposal group held for distribution or sale as of December 31, 2013, in light of their planned disposition pursuant to the privatization plan of the Korean government with respect to Woori Finance Holdings and its former subsidiaries. See Item 4A. History and Development of the Company Privatization Plan.

Liabilities and Equity

The following table sets forth, as of the dates indicated, the principal components of our liabilities and our equity:

	As of December 31,			Percentage change	
	2012	2013[1]	2014[1]	2013/2012	2014/2013
	(in billions of Won)			(%)	
Liabilities:					
Financial liabilities at fair value through profit or loss	10,986	2,507	2,675	(77.2)%	6.7%
Deposits due to customers	204,210	175,324	188,516	(14.2)	7.5
Borrowings	33,480	18,232	17,708	(45.5)	(2.9)
Debentures	27,960	21,678	24,796	(22.5)	14.4
Provisions	864	685	692	(20.7)	1.0
Other financial liabilities	25,544	19,914	16,890	(22.0)	(15.2)
Other liabilities[2]	1,025	543	787	(47.0)	44.9
Liabilities directly associated with disposal group held for sale		32,048			(100.0)
Liabilities directly associated with disposal group held for distribution to owners		46,882			(100.0)
Total liabilities	304,069	317,813	252,064	4.5	(20.7)
Equity:					
Capital stock	4,030	4,030	3,381		(16.1)
Hybrid securities	498	498	2,539		409.8
Capital surplus	174	177	291	1.7	64.4
Other equity	112	(35)	(2,393)	N/M[3]	6,737.1
Retained earnings	13,881	13,113	14,165	(5.5)	8.0
Equity directly associated with disposal group held for sale		30			(100.0)
Equity directly associated with disposal group held for distribution to owners		36			(100.0)
Controlling interests	18,695	17,849	17,984	(4.5)	0.8
Non-controlling interests	4,338	5,028	110	15.9	(97.8)
Total equity	23,033	22,877	18,093	(0.7)	(20.9)
Total liabilities and equity	327,102	340,690	270,157	4.2%	(20.7)%

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(1) The amounts as of December 31, 2013 reflect the classification of certain former subsidiaries as a disposal group held for distribution or sale. See Overview Privatization Plan.
(2) Includes net defined benefit liability, current tax liabilities, deferred tax liabilities, derivative liabilities and other liabilities.
(3) N/M = not meaningful.

For further information on our liabilities, see Item 4B. Business Overview Assets and Liabilities.

Comparison of 2014 to 2013

Our total liabilities decreased 20.7% from 317,813 billion as of December 31, 2013 to 252,064 billion as of December 31, 2014, primarily as a result of the dispositions during 2014 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 pursuant to the privatization plan of the Korean government with respect to Woori Finance Holdings and its former subsidiaries.

Our total equity decreased by 20.9% from 22,877 billion as of December 31, 2013 to 18,093 billion as of December 31, 2014, primarily as a result of such dispositions. See Item 4A. History and Development of the Company Privatization Plan.

Comparison of 2013 to 2012

Our total liabilities increased 4.5% from 304,069 billion as of December 31, 2012 to 317,813 billion as of December 31, 2013. However, the amounts for most categories of liabilities decreased from December 31, 2012 to December 31, 2013, primarily as a result of the classification of the liabilities 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 as liabilities directly associated with a disposal group held for distribution or sale as of December 31, 2013, in light of their planned disposition pursuant to the privatization plan of the Korean government with respect to Woori Finance Holdings and its former subsidiaries.

Our total equity decreased by 0.7% from 23,033 billion as of December 31, 2012 to 22,877 billion as of December 31, 2013. This decrease resulted principally from a decrease in our retained earnings, which was attributable to the net loss we generated in 2013. The decrease in total equity also reflected a decrease in other equity, including as a result of the classification of accumulated other comprehensive income 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 as equity directly associated with a disposal group held for distribution or sale as of December 31, 2013, in light of their planned disposition. See Item 4A. History and Development of the Company Privatization Plan.

Liquidity

Our primary source of funding has historically been and continues to be customer deposits, particularly lower-cost retail deposits. Deposits amounted to 204,210 billion, 175,324 billion (excluding discontinued operations) and 188,516 billion as of December 31, 2012, 2013 and 2014, which represented approximately 76.7% , 81.3% and 80.7% of our total funding, respectively. We have historically been able to use customer deposits to finance our operations generally, including meeting a portion of our liquidity requirements. Although the majority of deposits are short-term, it has been our experience that the majority of our depositors generally roll over their deposits at maturity, thus providing us with a stable source of funding. However, in the event that a substantial number of our depositors do not roll over their deposits or otherwise decide to withdraw their deposited funds, we would need to place increased reliance on alternative sources of funding, some of which may be more expensive than customer deposits, in order to finance our operations. See Item 3D. Risk Factors Other risks relating to our business Our funding is highly dependent on short-term deposits, which dependence may adversely affect our operations. In particular, we may increase our utilization of alternative funding sources such as short-term borrowings and cash and cash equivalents (including funds from maturing loans), as well as liquidating our positions in trading and investment securities and using the proceeds to fund parts of our operations, as necessary.

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We also obtain funding through borrowings and debentures to meet our liquidity needs. Borrowings represented 12.6%, 8.5% (excluding discontinued operations) and 7.6% of our total funding as of December 31, 2012, 2013 and 2014, respectively. Debentures represented 10.5%, 10.0% (excluding discontinued operations) and 10.6% of our total funding as of December 31, 2012, 2013 and 2014, respectively. For further information on our sources of funding, see Item 4B. Business Overview Assets and Liabilities Funding.

Our liquidity risks arise from withdrawals of deposits and maturities of our borrowings and debentures, as well as our need to fund our lending, trading and investment activities and to manage our trading positions. Our goal in managing our liquidity is to be able, even under adverse conditions, to meet all of our liability repayments on time and to fund all investment opportunities. For a discussion of how we manage our liquidity risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk Liquidity Risk Management.

The Financial Services Commission requires each Korean bank to maintain specific Won and foreign currency liquidity ratios. These ratios require each of our banking subsidiaries to keep its ratio of liquid assets to liquid liabilities above certain minimum levels. For a description of these requirements, see Item 4B. Business Overview Supervision and Regulation Principal Regulations Applicable to Banks Liquidity.

Contractual Obligations and Off-Balance Sheet Arrangements

The following table sets forth our contractual obligations as of December 31, 2014:

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in billions of Won)		
Contractual obligations					
Borrowing obligations[1]	17,686	13,175	3,162	744	605
Debenture obligations[1]	26,688	10,833	8,644	2,288	4,923
Deposits[2][3]	192,880	181,669	6,404	734	4,073
Capital (finance) lease obligations	32	14	18		
Operating lease obligations	1,376	230	456	439	251
Purchase obligations	364	76	121	112	55
Employee severance plan obligations	1,952	30	84	136	1,702
Total	240,978	206,027	18,889	4,453	11,609

(1) Includes estimated future interest payments, which have been estimated using contractual interest rates and scheduled contractual maturities of the outstanding borrowings and debentures as of December 31, 2014. In order to calculate future interest payments on debts with floating rates, we used contractual interest rates as of December 31, 2014.

(2) Comprising certificates of deposit, other time deposits and installment deposits.

(3) Includes estimated future interest payments, which have been estimated using weighted average interest rates paid for 2014 for each deposit product category and their scheduled contractual maturities.

We utilize credit-related financial instruments with off-balance sheet risk in our normal course of business. The primary purpose of those instruments is to generate fee income for us, in return for making credit support and funds available to our customers as required. Such instruments consist primarily of guarantees, commercial letters of credit and unused lines of credit. Guarantees include guarantees for loans, debentures, trade financing arrangements and guarantees for other financings. Contingent liabilities for which guaranteed amounts are not finalized appear as off-balance sheet items in the notes to the financial statements. Such contingent liabilities include, among others, contingent liabilities relating to trade financings and derivatives contracts with respect to foreign exchange rates and interest rates.

We also enter into transactions with certain structured entities, including through the purchase of their subordinated debt and the provision of credit facilities to them.

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The following table sets forth our off-balance sheet guarantees and commitments (including discontinued operations) as of the dates indicated:

	As of December 31,		
	2012	2013	2014
		(in billions of Won)	
Confirmed guarantees	9,769	9,806	9,274
Guarantees for loans	172	211	109